

Property NSW

Annual Report 2017-18

- Financial statements for the year ended 30 June 2018
- Statutory information

The Hon Victor Dominello, MP
Minister for Finance, Services and Property
GPO Box, 5341
SYDNEY NSW 2001

Dear Minister,

Property NSW Annual Report 2017-18

I am pleased to submit the Annual Report for Property NSW, for the year ended 30 June 2018, for presentation to Parliament.

This report has been prepared in accordance with the *Annual Reports (Statutory Bodies) Act 1984*, the *Public Finance and Audit Act 1983* and regulations under those Acts.

Yours sincerely,

Brett Newman
Chief Executive Officer
Property NSW

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1. Charter

Property NSW has been assigned the NSW Government mandate to continually improve the management of the NSW Government's owned and leased real property portfolio.

Property NSW operates under the principal legislation of:

- *Property NSW Act 2006.*

2. Aims and objectives

Under its Act, the principal objectives of Property NSW in exercising its functions are:

- to improve operational efficiencies in the use of government agency properties, particularly generic properties such as offices, warehouses, depots and car parks;
- to manage properties of government agencies in a way that supports the service delivery functions of those agencies;
- to provide advice and support within government on property matters; and
- to operate at least as efficiently as any comparable business, consistently with the principles of ecologically sustainable development and social responsibility for the community.

Property NSW delivers on its Act by:

- holding, managing, maintaining, acquiring or disposing of property for the government and government agencies;
- undertaking, managing, coordinating or participating in the development of government agency property;
- arranging, where appropriate, for the sharing of facilities and premises by government agencies to reduce operational expenses;
- providing property services for its own or government agency properties, including property management, maintenance and improvements;
- providing advice to the Minister in relation to government agency property, in particular:
 - whether the properties are being efficiently utilised
 - regarding the transfer of properties to Property NSW and related budgets
 - other matters relating to government agency properties, as the Minister directs.

3. Access

Property NSW
Level 4, 66 Harrington Street, The Rocks
PO Box N408 Grosvenor Place NSW 1220
T: +61 2 9240 8500
feedback@property.nsw.gov.au
www.property.nsw.gov.au

Core business hours are 8:30am – 5:00pm Monday to Friday.

4. Management and structure

Property NSW is part of the Department of Finance, Services and Innovation (DFSI).

It is led by a CEO, who reports to the Minister, both directly and via the Secretary of DFSI.

As at 30 June 2018, Property NSW's Executive team consisted of:

Brett Newman

Deputy Secretary, Property and Advisory Group; Chief Executive Officer, Property NSW
MBA, LLM, LLB, BEc

Adam Howarth

Executive Director, Portfolio Management Group
B.App.Sc, Land Ec. (Real Estate & Valuation), Hons

Dennis Szabo

Executive Director, Commercial Transactions
BBus, Chartered Accountant (CAANZ), App Dip Fin & Inv (Finsia)

Leon Walker

Executive Director, Major Projects
BBusB&F, GradDipProp, GradCercMgmt, GradDip App.Fin, GAICD

Jennifer Palmer

Executive Director, Operational and Housing Services
MSIT, GradDegSc.

Stuart Crawford

Executive Director, Property Financial Services
BCom, LLB, Chartered Accountant (CAANZ); MBA (Exec)

Naveen Chandra

Executive Director, Strategy
BEc (Hons); MBA

Anna Welanyk

Executive Director, Valuation Services
BArts

Stuart Pickering

Executive Director, Public Works Advisory
BArch, Cert Tech., Dip.Management
Member of IPAA (Institute of Public Administration Australia NSW)

Sam Romaniuk

Executive Director, Place Management
B.Com, LLB, Chartered Accountant (CAANZ)

5. Summary review of operations

The past 12 months have seen significant steps towards our vision of excellence in property, infrastructure and places for New South Wales.

Property NSW developed a three-year Corporate Plan to set the direction for our organisation and ensure we're focused on the policies, projects and places that will make a lasting difference to the State.

Property NSW's achievements included:

- government approval of significant property policy reforms, including the Property Infrastructure Policy and Whole-of-Government Office Accommodation Policy
- recycling \$490 million in surplus or underutilised property assets
- reaching the \$500 million sales milestone in the Millers Point sales program, helping to fund more than 1,500 new social housing dwellings
- a reduction in office space utilisation for the Property NSW managed portfolio (regional, metro and CBD office) from 15.1m²/FTE to 14.3m²/FTE
- a reduction in CBD office space of more than 37,000m² in FY18. The Government has now reduced CBD office space by 73,246m² since 2011
- delivering lease pre-commitments on eight sites and more than 140,000m² of new office space across the State
- The award of eight new contracts to deliver maintenance services to 3,000 government sites, including schools, TAFE campuses, ambulance and fire stations. The contracts are estimated to save the NSW Government \$60 million over four years
- Ensuring gross effective rents for 75% of new leases are at or below market benchmarks.

6. Legal change

Property NSW provides a range of statutory acquisitions services, which include vesting under the *Property NSW Act* and acquisitions under the *Land Acquisition (Just Terms Compensation) Act 1991* for client purposes.

7. Economic or other factors

The commercial property market has remained robust over the past 12 months, with strong demand in Sydney resulting in a continued reduction in vacancy rates.

Vacancy rates in Sydney's CBD are at their lowest in over 10 years, dropping from 4.8% to 4.6% in the six months to July 2018.¹

Office investment remains strong in Sydney's CBD, with office sales volumes above \$20 million increasing 86 per cent in FY2018.²

¹ Property Council of Australia Office Market Report – August 2018.

² Colliers Office Investment Review – 2017/18

8. Management and activities

Property NSW is the NSW Government's central agency responsible for strategic real property asset management. Property NSW primarily manages the NSW Government's non-specialised property portfolio, including office and other generic assets.

Property NSW's focus is on the strategic review, acquisition, divestment and greater utilisation of the government's real property assets and precincts, which results in better visitor experiences and services for the people of NSW.

Property NSW's assets comprise office buildings, significant heritage properties, police housing, non-commercial assets and landholdings, many which have been vested to Property NSW by other government agencies.

The organisation works closely with a range of government agencies, providing specialist industry knowledge, expertise and understanding of the unique requirements of government property management.

Performance overview

Commercial portfolio utilisation

Property NSW ensures that the managed property portfolio best supports core service delivery of agencies by:

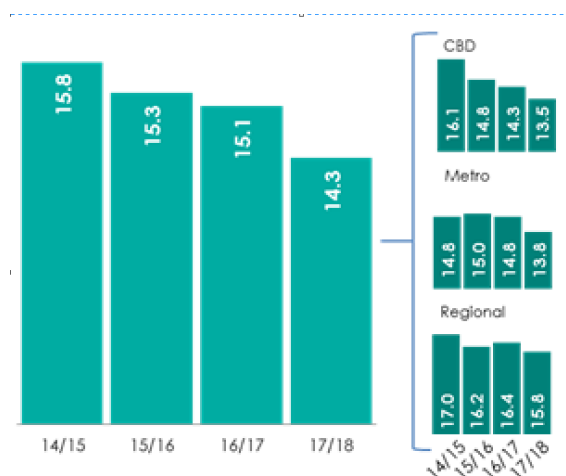
- ensuring that space is well utilised
- minimising rental cost by leveraging the bargaining power of Government
- maximising precinct value
- maximising efficiency of landfill operations; and
- providing quality housing services for police.

Utilisation: In 2017/18, the total portfolio under Property NSW management saw office space utilisation improve from 15.1m²/FTE to 14.3m²/FTE. This covers both owned and leased properties, and is a result of improved Property NSW policies and processes, including the continued digitisation of the end-to-end leasing process.

During 2017/18, improvements in utilisation of 0.84m²/FTE, 0.96m²/FTE and 0.60m²/FTE were achieved across, CBD, Metro and Regional assets respectively. This delivered a total improvement in utilisation of 0.8m²/FTE.

Property NSW has a utilisation target of 13m²/FTE for lease renewals, and 10m²/FTE for new leases.

Utilisation excluding operational space (m²/FTE)



This improving utilisation has significant ongoing impacts on total rental cost as leases are renewed. Given the significant staffing base working in properties managed by Property NSW, the 0.8m²/ FTE utilisation reduction achieved could represent over 47,000m² (approx. 5% of the current leased portfolio) in reduced space.

Leased Portfolio Rental Costs: As the size of the leased portfolio grows (through both government owned asset sales and changing government priorities), managing the average rental costs of commercial leases becomes increasingly important. Property NSW seeks to add value through employing a greater collective bargaining power than individual agencies would have to deliver both lower and more stable rental costs for the Government.

Commercial Portfolio Performance

The core aim of Property NSW in property management is to ensure property accommodation supports the core service delivery of agencies.

Property NSW seeks to manage returns and expenditures of capital assets as secondary and supporting goals, rather than optimising portfolio returns at the expense of wider objectives. Note that the asset performance included in this section contains only commercial properties to provide accurate comparisons to benchmarks.

Total returns³: The total return this financial year for Property NSW was 11%, compared to the benchmark⁴ of 13%.

³ Returns have been calculated having regard to passing rents, capital expenditure and changes in market value.

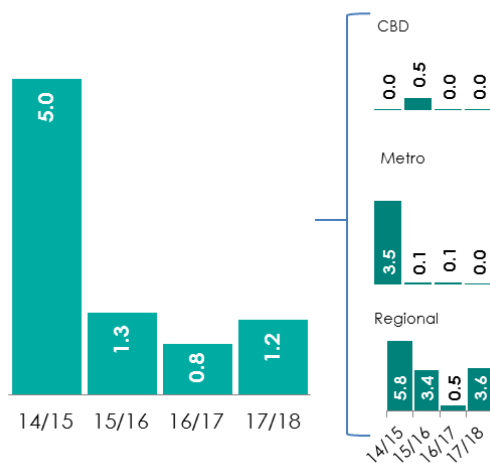
⁴ Benchmark according to Property Council / IPD Australia Property Index – Quarterly Update – March 2017. Non-residential Australian office return.

Commercial Property Portfolio Total Returns (% pa)



Vacancy rates: Property NSW has continued to maintain very low vacancy rates for the owned commercial properties with CBD vacancy at 0.0%⁵ vs. benchmark⁶ of 4.6% and the Metro areas (0.0% vs. 5.4%⁷).

Commercial Property Portfolio Vacancy Rate (%)



The vacancy rate for the Property NSW owned and leased property portfolios is 1.2%. The leased portfolio includes 829 properties leased from external landlords.

⁵ Source data: PNSW data from JLL RED database at 30 June 2018.

⁶ Sydney CBD Benchmark source – PCA 2018 Office Market Report – July.

⁷ BIS Oxford Economics Non-CBD Vacancy Rate, December 2017.

9. Human resources

Employment Statistics (# of FTE)

Division	2015 ^{8,9}	2016 ^{8,9}	2017 ^{8,9}	2018 ^{8,9}
Senior Executive	15.4	20.3	28.1	32.0
Senior Officer	3.0	-	-	-
Ongoing	77.7	96.3	259.2	263.6
Temporary	2.0	3	8.0	14.0
Graduate	-	-	3.0	1.0
Total	98.1	119.6	298.3	310.6

	2017 ^{10,11,12}				2018 ^{9,10,11}			
Senior Executive Band	Female	Male	Total	% Representation by Women	Female	Male	Total	% Representation by Women
Band 4 (Secretary)	0	0	0	0%	0	0	0	0%
Band 3 (Deputy Secretary)	0	1	1	0%	0	1	1	0%
Band 2 (Executive Director)	2	4	6	33%	2	5	7	28.6%
Band 1 (Director)	8	14	22	36%	10	14	25	40.0%
Total	10	19	29	34%	11	20	32	34.4%

⁸ Full time equivalent staff (excludes chairpersons, casuals, contractor/agency staff, statutory appointments, trustees, council committee members, staff on secondment to other agencies and staff on long term leave without pay).

⁹ Statistics are based on Workforce Profile census data as at 18 June 2015, 30 June 2016, 29 June 2017 and 28 June 2018.

¹⁰ Senior Executive statistics exclude casuals, contractor/agency staff, statutory appointments, staff on secondment to other agencies and staff on long term leave without pay.

¹¹ Statistics are based on Workforce Profile census data as at 29 June 2017 and 28 June 2018.

¹² All employees reported in 2017 and 2018 are appointed under the Government Sector Employment Act. Salary band based on current assignment including those on a temporary above level assignment for more than two months.

	2017 ¹³		2018 ¹³	
Senior Executive Band	Range \$	Average Remuneration \$	Range \$	Average Remuneration \$
Band 4 (Secretary)	452,250 - 522,500	0	463,551 - 535,550	0
Band 3 (Deputy Secretary)	320,901 - 452,250	495,025	328,901 - 463,550	506,326 ¹⁴
Band 2 ¹⁵ (Executive Director)	255,051 - 320,900	278,684	261,451 - 328,900	283,067
Band 1 ¹⁵ (Director)	178,850 - 255,050	220,946	183,300 - 261,450	224,533

Employee related costs

Employee related costs 2018	Amount
Executive	\$7,445,882
Non-Executive	\$29,630,704
Total	\$37,076,586
Ratio Senior Executive	20.1%

In 2018, 20.1% of employee related expenditure was for senior executives, compared with 2017 which was 19.1%.

¹³ Salary ranges effective at the Workforce Profile census dates of 29 June 2017 and 28 June 2018.

¹⁴ Figures reflect allowances paid within the period.

¹⁵ Total remuneration package data not available in workforce profile so average remuneration taken for annual base remuneration of assigned role.

10. Workforce Diversity

Trends in the Representation of Workforce Diversity Groups				
Workforce Diversity Group	Benchmark	2016 ^{16,17}	2017 ^{14,15}	2018 ¹⁴
Women ¹⁸	50%	46.8%	46.0%	46.3%
Aboriginal People and/or Torres Strait Islander People ¹⁹	3.3%	0.0%	1.6%	0.4%
People whose First Language Spoken as a Child was not English ²⁰	23.2%	13.7%	17.3%	18.2%
People with a Disability ²¹	5.6%	2.4%	4.0%	2.2%
People with a Disability Requiring Work-Related Adjustment ¹⁹	N/A	1.6%	1.1%	1.1%

Trends in the Distribution of Workforce Diversity Groups				
Workforce Diversity Group	Benchmark ^{22,23}	2016	2017	2018
Women	100	95	90	91
Aboriginal People and/or Torres Strait Islander People	100	N/A	N/A	N/A
People whose First Language Spoken as a Child was not English	100	N/A	98	99
People with a Disability	100	N/A	N/A	N/A
People with a Disability Requiring Work-Related Adjustment	100	N/A	N/A	N/A

¹⁶ Statistics are based on Workforce Profile census data as at 30 June 2016, 29 June 2017 and 28 June 2018.

¹⁷ Workforce diversity statistics for 2016 and 2017 reflect the current composition of the department and may vary from those reported in previous annual reports.

¹⁸ The benchmark of 50% for representation of women across the sector is intended to reflect the gender composition of the NSW community.

¹⁹ The NSW Public Sector Aboriginal Employment Strategy 2014 – 17 introduced an aspirational target of 1.8% by 2021 for each of the sector's salary bands. If the aspirational target of 1.8% is achieved in salary bands not currently at or above 1.8%, the cumulative representation of Aboriginal employees in the sector is expected to reach 3.3%.

²⁰ A benchmark from the Australian Bureau of Statistics (ABS) Census of Population and Housing has been included for People whose First Language Spoken as a Child was not English. The ABS Census does not provide information about first language, but does provide information about country of birth. The benchmark of 23.2% is the percentage of the NSW general population born in a country where English is not the predominant language.

²¹ In December 2017, the NSW Government announced the target of doubling the representation of people with disability in the NSW public sector from an estimated 2.7% to 5.6% by 2027. More information can be found at: Jobs for People with Disability: A plan for the NSW public sector. The benchmark for 'People with Disability Requiring Work-Related Adjustment' was not updated.

²² A Distribution Index score of 100 indicates that the distribution of members of the Workforce Diversity group across salary bands is equivalent to that of the rest of the workforce. A score less than 100 means that members of the Workforce Diversity group tend to be more concentrated at lower salary bands than is the case for other staff. The more pronounced this tendency is, the lower the score will be. In some cases, the index may be more than 100, indicating that members of the Workforce Diversity group tend to be more concentrated at higher salary bands than is the case for other staff.

²³ The Distribution Index is not calculated when the number of employees in the Workforce Diversity group is less than 20 or when the number of other employees is less than 20.

11. Consultants

Property NSW engages consultants for specialised work on an as-needed basis, including for economic appraisals and financial services.

In 2017/18, Property NSW engaged the following consultant for fees above \$50,000.

Consultant's Name	Amount of Consultancy	Title of Project	Categorised by the Nature of Consultancy	Total Number of Engagements
Deloitte	\$ 70,000.00	Financial impact of new accounting standard AASB 16 Leases	Finance & Accounting	1

Three consultants whose fees were less than \$50,000 were also engaged, with fees totalling \$111,050. These engagements related to risk management, financial services and management advice.

12. Disability inclusion action plans

As part of DFSI, Property NSW supports the department's Disability Inclusion Action Plan 2015-18. The plan sets out how DFSI will work towards:

- the development of positive community attitudes and behaviours towards people with a disability
- the creation of more liveable communities for people with a disability
- the achievement of a higher rate of meaningful employment participation by people with a disability through inclusive employment practices
- more equitable access to mainstream services for people with a disability through better systems and processes.

13. Promotion

Officer	Destination	Purpose
Chief Executive Officer	China	To attend the Australia and New Zealand School of Government Annual China Reciprocal Program. The programs enable senior public sector leaders to address specific policy, economic and social issues.

14. Consumer response

Property NSW responded efficiently and effectively to feedback from consumers.

Property NSW encourages feedback from the general public via an email address on its corporate website, www.property.nsw.gov.au. We received 733 compliments, complaints and enquiries through this channel during the reporting period.

Further, in line with the Premier's Priority to improve government services, Property NSW introduced a Complaint Handling Improvement Program (CHIP) widget on its website.

During the reporting period, we received 14 complaints, 16 suggestions and 12 compliments since its introduction. The average time to resolve and close complaints was five working days.

Additionally, Property NSW has mechanisms in place for its government agency clients to provide feedback relating to base building issues via the Property NSW Customer Service Request Centre at <https://jll-property.nsw.corrigo.com/Customer/Home>

The portal continues as the central service point for agency property management issues. It allows government agency staff to log and track maintenance requests online in real time for Property NSW-managed buildings.

Property NSW also gauges client response to its service delivery through its annual client survey.

15. Payment of accounts

The table below sets out Property NSW's account payment performance for 2017/18.

Property NSW

ACCOUNT PAYMENT PERFORMANCE AS 2017-18

Total Property NSW Entity

ACCOUNT PAYMENT PERFORMANCE Property NSW ENTITY - ALL PAYMENTS AS AT 2017-18	FULL YEAR				
	1ST QTR	2ND QTR	3RD QTR	4TH QTR	TOTAL
ALL SUPPLIERS					
Value of Invoices Paid (\$'000)					
Paid Before Due	\$164,797	\$150,548	\$175,141	\$204,924	\$695,410
<30 Days Overdue	\$5,217	\$4,407	\$7,052	\$1,930	\$18,606
>30<60 Days Overdue	\$1,888	\$3,199	\$779	\$580	\$6,446
>60<90 Days Overdue	\$424	\$713	\$1,539	\$1,733	\$4,408
>90 Days Overdue	\$519	\$487	\$814	\$1,800	\$3,620
Total Value of Invoices Paid (\$'000)	\$172,844	\$159,354	\$185,325	\$210,966	\$728,489
% Paid on Time - By Value	95%	94%	95%	97%	95%
Number of Invoice Paid					
Paid Before Due Date	11,217	9,543	10,777	11,481	43,018
Paid Past Due Date	3,105	3,019	2,113	1,996	10,233
Total Number of Invoices Paid	14,322	12,562	12,890	13,477	53,251
% Paid on Time - By Number	78%	76%	84%	85%	81%
Interest Paid					
Number of Payments for Interest on:					
Overdue Invoices	-	-	-	-	-
Interest Paid on Overdue Invoices	-	-	-	-	-
SMALL BUSINESS SUPPLIERS					
Value of Invoices Paid (\$'000)					
Paid Before Due Date	\$8	\$0	\$0	\$0	\$8
<30 Days Overdue	\$0	\$0	\$0	\$0	-
>30<60 Days Overdue	\$0	\$0	\$0	\$0	-
>60<90 Days Overdue	\$0	\$0	\$0	\$0	-
>90 Days Overdue	\$0	\$0	\$0	\$0	-
Total Value of Invoices Paid (\$'000)	\$8	-	-	-	\$8
Total Value Paid on Time (%)	100%	N/A	N/A	N/A	100%
Number of Invoices Paid					
Paid Before Due Date	8	-	-	-	8
Paid Past Due Date	-	-	-	-	-
Total Number of Invoices Paid	8	-	-	-	8
% Paid on Time - By Number	100%	0%	0%	0%	100%
Interest Paid					
Number of Payments for Interest on:					
Overdue Invoices	-	-	-	-	-
Interest Paid on Overdue Invoices	-	-	-	-	-

Small Business has been removed when Property NSW moved to SAPConnect in November 2017. Small Business needs to reapply. As at 30 June 2018 there is no Small Business classified in Property NSW's Supplier Listing.

Property NSW continues to review its outsourced service provider against the Service Level Agreement.

16. Risk management and insurance activities

Risk Management

Property NSW constantly monitors its environment to assess the risks in its operations, and uses its resources to manage these risks. Property NSW's approach to risk management seeks to balance risk, cost and growth for the benefits of its stakeholders, by:

- Adopting the DFSI Risk and Resilience Framework to manage strategic and business risks, which is consistent with Property NSW's objectives and responsibilities to its stakeholders
- Development of a Risk Management guideline to support the implementation of the DFSI Framework
- Assessing the impact of proposed changes to laws, regulations and industry codes
- Reporting risks to the Audit and Risk Committee, relevant Boards, Executive Committee and senior leadership team.

The DFSI Risk and Resilience Framework has been developed in alignment with:

- NSW Treasury Policy Paper (TPP- 15-03): *Internal Audit and Risk Management Policy for NSW Public Sector*
- Australian/New Zealand Risk Management Standard (AS/NZS ISO31000): *Risk Management Principles and Guidelines*

Key achievements during 2017/18:

- Better integration of risk management with strategic and business planning processes
- Developed risk management system
- Developed standard risk reporting
- Successfully conducted Business Continuity walkthrough exercise
- Completed annual compliance attestation

Insurance Arrangements and Activities

Property NSW had insurance arrangements in place for all its assets and major risks. Insurable risk cover was primarily provided through participation in the NSW Treasury Managed Fund (TMF), a NSW Government self-insurance scheme. Insurable risk exposures covered through the TMF includes:

- Workers compensation
- Legal including liability classes like public liability, products liability, professional indemnity, directors and officer liability
- Property including buildings, plant, equipment, and consequential loss
- Motor vehicle
- Other miscellaneous losses, such as the cost of employee dishonesty, personal accident and protection for overseas travel.

The main exposures that are not included are:

- illegal activities
- wear and tear, and inherent vice (Note: *Inherent Vice is an exclusion found in most property insurance policies eliminating coverage if there is a hidden defect in a good or property which causes or contributes to its deterioration, damage, or wastage*)
- pollution (not being sudden and accidental pollution)

Number of claims and net incurred costs

Insurance claims and net incurred cost for Property NSW for financial year 2016-17 and 2017-18 are shown in the table below:

	Number of Claims		Net incurred cost (\$)	
	2016-17	2017-18	2016-17	2017-18
Workers Comp	4	5	\$28,946	\$170,797
Property	19	5	\$395,372	\$697,340
Liability	-	6	-	\$263,572
Motor vehicle	-	1	-	\$6,047
Miscellaneous	-	-	-	-
Total	23	17	\$424,318	\$1,137,756

All incurred claims and relevant costs were sourced from the TMF database. They are based on the claims lodged and relevant assessment to date. The final costs and claim numbers may vary due to the timing of loss incurred, claims reported and the outcome of negotiated settlement.

17. Internal audit and risk management policy attestation

Property and Advisory Group Audit and Risk Committee (ARC)

Property NSW, as part of Property and Advisory Group (PAG), had an ARC in place during the 2017-18 financial year. The ARC provides independent assistance to the following participating entities by monitoring, reviewing and providing advice about their governance processes, risk management and control framework, and their external accountability requirements:

- Property NSW
- Teacher Housing Authority of NSW
- Waste Assets Management Corporation
- Place Management NSW
- Luna Park Reserve Trust

The above participating entities have entered into a collaborative shared arrangement and have established a shared ARC in compliance with:

- NSW Treasury Policy Paper (TPP15-03): *Internal Audit and Risk Management Policy for NSW Public Sector*
- NSW Treasury Policy Paper (TPP16-02): *Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees.*

The committee met five times during the 2017-18 financial year.

DFSI, while not a participating entity, has a special role in providing audit, risk and secretariat services to the committee and the participating entities. This shared arrangement aims to maintain an appropriate level of internal oversight for all participating entities in assurance and independent advice, while minimising the associated administration, financial costs and resources.

Membership

The Chair and members of the Audit and Risk Committee are:

- Carol Holley, Independent Chair, from 2 December 2015 to 1 December 2020
- Dianne Hill, Independent Member, from 1 February 2016 to 31 January 2019
- Mark O'Sullivan, Independent Member, from 25 January 2016 to 24 January 2018
- Nirmal Hansra, Independent Member, from 20 December 2017 to 19 December 2020

18. Internal Audit and Risk Management Attestation Statement for 2017-18 Financial Year

Internal Audit and Risk Management Attestation Statement for the 2017-2018 Financial Year for Property NSW

I, Brett Newman, Chief Executive Officer, am of the opinion that Property NSW has internal audit and risk management processes in operation that are compliant with the eight (8) core requirements set out in the *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

Core Requirements	For each requirement, please specify whether compliant, non-compliant, or in transition
Risk Management Framework	
1.1 The agency head is ultimately responsible and accountable for risk management in the agency	Compliant
1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009	Compliant
Internal Audit Function	
2.1 An internal audit function has been established and maintained	Compliant
2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing	Compliant
2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'	Compliant
Audit and Risk Committee	
3.1 An independent Audit and Risk Committee with appropriate expertise has been established	Compliant
3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations	Compliant
3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'	Compliant

Membership

The chair and members of the Audit and Risk Committee are:

- Carol Holley, Independent Chair, from 2 December 2015 to 1 December 2020;
- Dianne Hill, Independent Member, from 1 February 2016 to 31 January 2019;
- Nirmal Hansra, Independent Member, from 20 December 2017 to 19 December 2020.

This Audit and Risk Committee has been established under a Treasury approved shared arrangement with the following departments/statutory bodies:

- Luna Park Reserve Trust
- Property NSW
- Teacher Housing Authority
- Waste Assets Management Corporation
- Place Management NSW



Brett Newman
Chief Executive Officer
Property NSW

Date: 20/9/18

Agency Contact Officer
Andrew Pilbeam
Chief Audit Executive, 9219 3077
andrew.pilbeam@finance.nsw.gov.au

19. Digital information security policy attestation

Digital Information Security Annual Attestation Statement for the 2017-2018 Financial Year for Property NSW

I, Brett Newman, am of the opinion that Property NSW had an Information Security Management System in place during the 2017-2018 financial year that is consistent with the Core Requirements set out in the NSW Government Digital Information Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of Property NSW are adequate with exception to control deficiencies identified in one of the ICT shared services providers. The service provider has taken some remediation actions to address the control deficiencies and will consult with impacted agencies on action plan to address the remaining deficiencies.

There is no agency under the control of Property NSW which is required to develop an independent ISMS in accordance with the NSW Government Digital Information Security Policy.



Brett Newman
Chief Executive Officer
Property NSW

20. Multicultural Policies and Services Program

Property NSW has multicultural policies and service programs guided by DFSI's Diversity and Inclusion Strategy, Aboriginal Workforce Strategy, Disability Inclusion Action Plan and the Government Sector Employment Act 2013, which prioritises diversity in the workforce.

Property NSW promotes multiculturalism and diversity through a range of initiatives, including but not limited to:

- supporting NAIDOC Week through a series of events and initiatives, including a public ceremony featuring members of the Metropolitan Aboriginal Land Council.
- promoting diversity initiatives, including 'Wear it Purple Day', to support the LGBTQI+ community.
- hosting a detailed calendar of community festivals in Darling Harbour, celebrating multiculturalism.
- the establishment of a Diversity Working Group within PAG, with an initial focus on women in leadership, and improving PAG's performance against key metrics including Indigenous, English as a second language and ability employee representation.

In addition, the PAG revised Corporate Plan includes a new KPI that women represent at least 35 per cent of the leadership team, an interim milestone to achieving DFSI's target of 50 per cent of women in leadership roles.

21. Work Health and Safety (WHS)

In 2017/18, Property NSW continued to take a proactive approach in managing the safety of all employees, other workers and visitors to its properties, sites and activations.

A cluster-wide safety management system is being developed to ensure a consistent approach to the reporting and management of safety incidents and activities.

Specific PAG WHS activities undertaken in 2017/18 include:

- development of a PAG incident management software system
- initiated roll-out of the Integrum incident management system to several business units
- roll out of a group incident management procedure
- increased WHS support before, during and after State Significant Events such as New Year's Eve, Australia Day and Vivid including on-the-ground WHS pre-inspections
- participating in the Harrington St Operational Readiness Working Group. This was followed by WHS advice and support during the practical re-settlement of personnel at 66 Harrington
- assisting in the coordination of health and wellbeing initiatives such as the flu vaccination program and provision of a lactation / faith room separate to our first aid room at Harrington St.

WHS incidents – Property and Advisory Group

The following number of incidents was reported during 2017/18:

- 47 staff Incidents.

There were no SafeWork NSW notifiable incidents or dangerous occurrences affecting staff.

WHS induction and training

PAG staff members were required to complete two WHS mandatory courses:

- Introduction to Health and Safety, and
- WHS Due Diligence for managers.

As of 30 June 2018, there was 100 per cent course completion by eligible workers across PAG.

WHS consultation

The WHS Consultative Committee has continued to be active in consultation upon WHS issues. Notably providing important feedback on the proposed group-wide DFSI WHS framework.

The PAG WHS Committee reviewed and approved a number of updated Safe Operating Procedures coinciding with the roll out of the Integrum Incident Management software system.

22. Budgets

Performance against budget

Property NSW delivered a strong result over 2017/18. While the net result for 2017/18 shows an unfavourable variance of \$40 million relative to budget, this was largely due to additional payments made to the Restart NSW fund. Performance was highlighted by revenues finishing the year \$60 million ahead of budget.

The strong property market has led to record low vacancy rates and continued tightening supply, especially within CBD and Metro areas.

Property NSW successfully completed the sale of 43-61 Waterloo Rd, Macquarie Park for \$170 million. A gain on sale of \$112 million was achieved, contributing to the total net sale proceeds of \$166.3 million delivered to the Restart NSW fund.

In addition, Property NSW transferred 1 and 1a Fleet St, Parramatta to UrbanGrowth Development Corporation for \$1 each, this resulted in a loss of \$3.9 million as there was no existing balance in the Asset Revaluation Reserve of the same asset class at the transfer date.

Budget overview

Property NSW is forecast to deliver a \$25.6 million surplus for the 2018/19 financial year. The owned property portfolio will continue to be impacted by the asset divestment program. As part of the Treasury Pricing Review, tenant management fees were recently introduced and will have their first full year of application in 2018/19.

Capital grant funding of \$58.9 million in 2018/19 is to be provided to Property NSW for delivery of the Building Refurbishment Plan on the owned property portfolio.

The leased property portfolio continues to evolve through implementing the whole-of-government accommodation policies. Rental escalations reflect a tightening leasing market particularly in the CBD and metropolitan areas. The leased portfolio is budgeted to deliver a negative contribution of \$1.5 million due to known vacancies in regional areas that exist within the leased portfolio.

	2016/17 actual \$'000	2017/18 actual \$'000	2017/18 budget \$'000	2017/18 variance \$'000	2018/19 budget \$'000
Property NSW					
Expenses	561,855	829,393	733,695	(95,698)	675,400
Revenues	725,568	712,362	652,172	60,190	692,602
Other gains/(losses)	20,677	(5,091)	(300)	(4,791)	8,462
Net operating result - surplus/(deficit)	184,390	(122,122)	(81,823)	(40,299)	25,664

23. Additional matters for inclusion

Privacy and Personal Information Protection Act 1998 (PIIP Act)

The *Privacy and Personal Information Protection (PIIP) Act 1998* contains 12 information protection principles regulating the collection, use and disclosure of personal information by NSW public sector agencies. These principles ensure that agencies collect personal information for lawful purposes, and that such information is protected from misuse and unauthorised release.

NSW Government agencies are required to prepare and implement a privacy management plan in accordance with section 33(1) of the *Privacy and Personal Information Protection Act 1998*.

Additional information about how Property NSW manages its obligations under the PIIP Act is available at <http://www.property.nsw.gov.au/government-property-nsw-privacy-statement>.

Accessing this report

This report can be accessed at <https://www.property.nsw.gov.au/about-us>

24. Numbers and remuneration of senior executives

See Human Resources above.

25. Credit card certification

In accordance with Treasurer's Direction 205.01, credit card usage by officers of Property NSW during the reporting period was in accordance with relevant Government policy, Premier's Memoranda and Treasurer's Directions.

Property NSW has in place a corporate credit card policy that meets NSW Treasury guidelines.

26. Government Information (Public Access) Act 2009

The *Government Information (Public Access) Act 2009* (GIPA Act) requires NSW Government agencies to make mandatory disclosures of information, encourages proactive releases of information and provides mechanisms for individuals to apply to access government information.

More information on how to access department information is available at <https://www.finance.nsw.gov.au/accessing-ofs-information/how-can-i-access-ofs-information>.

Statistical information relating to formal applications under the GIPA Act is provided in the DFSI Annual Report Government Information (Public Access) statistics.

Review of proactive release program

Under section 7(3) of the GIPA Act, agencies must review their proactive release of government information program at least once every 12 months.

Property NSW complies with this Act by proactively releasing information on its website www.property.nsw.gov.au.

27. Public Interest Disclosures

As staff members are employees of DFSI, Property NSW has adopted and adhered to the DFSI Fraud and Corruption Internal Reporting Policy. All staff members are advised of this policy by means of the Code of Conduct and intranet access.

There were no public interest disclosures made by Property NSW officials for the period 1 July 2017 to 30 June 2018.

28. Exemptions and nil reports

Reporting requirement	Reason for exemption
Disclosure of controlled entities	Property NSW does not control any entities of the kind referred to in section 39 (1A) of the <i>Public Finance and Audit Act 1983</i> .
Disclosure of subsidiaries	Property NSW does not control or hold shares in any subsidiaries within the meaning of the <i>Corporations Act 2001</i> (Cth.).
Funds granted to Non-Government Organisations	Property NSW did not make any grants to any non-government community organisations during the reporting period.
Agreements with Multicultural NSW	Property NSW does not have any agreements with Multicultural NSW under the <i>Multicultural Act 2000</i> .
Investment Performance	All Property NSW investment powers are in accordance with Part 1 of Schedule 4 of the <i>Public Authorities (Financial Arrangements) Act 1987</i> . However, all cash reserves are held in Treasury Banking System (TBS) bank accounts.
Implementation of Price Determination	Property NSW is not subject to determinations or recommendations of the Independent Pricing and Regulatory Tribunal of NSW.
Liability management performance	Not applicable, as Property NSW does not have a level of debt greater than \$20 million.
Land Disposal	No properties with a value greater than \$5 million were disposed of during 2017-18 without going to public auction or tender. Property NSW keeps a register of government contracts. All contracts greater than \$150,000 are released on the site https://tenders.nsw.gov.au/ .
Requirements arising from employment arrangements	N/A
Research and Development	N/A

Property NSW

Annual Report 2017-18

- Financial statements for the year ended 30 June 2018



INDEPENDENT AUDITOR'S REPORT

Property NSW

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Property NSW, which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Statement of Significant Accounting Policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of Property NSW as at 30 June 2018 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of Property NSW in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

Other information comprises the information included in Property NSW's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The Chief Executive Officer of Property NSW is responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprises the Statement by Chief Executive Officer.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Chief Executive Officer's Responsibility for the Financial Statements

The Chief Executive Officer is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive Officer determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer is responsible for assessing Property NSW's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting except where the Property NSW will be dissolved by an Act of Parliament or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that Property NSW carried out its activities effectively, efficiently and economically
- about the assumptions used in formulating the budget figures disclosed in the financial statements
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Weini Liao
Director, Financial Audit Services

20 September 2018
SYDNEY

Property NSW

Financial Statements

For the Year Ended 30 June 2018

Statement by Chief Executive Officer

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, and in my capacity as acting Chief Executive Officer of Property NSW, I declare that in my opinion:

- (a) The accompanying financial statements exhibit a true and fair view of the Property NSW's financial performance for the financial year ended 30 June 2018 and financial position as at 30 June 2018; and
- (b) The financial statements comply with applicable Australian Accounting Standards (which include Australian Accounting Interpretations), the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2015* and the Treasurer's Directions mandated by the Treasurer.

Further, I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.



Brett Newman
Chief Executive Officer
Property NSW

Date: 20 September 2018

PROPERTY NSW
Start of Audited Financial Statements
Statement of Comprehensive Income
For the Year Ended 30 June 2018

	Note	Actual 2018 \$'000	Budget 2018 \$'000	Actual 2017 \$'000
Revenue				
Sale of Goods and Services	B1(a)	608,509	548,413	541,276
Investment Revenue	B1(b)	5,839	5,745	6,082
Grants and Contributions	B1(c)	97,414	97,414	177,660
Other Revenue	B1(d)	600	600	550
Total Revenue		712,362	652,172	725,568
Expenses Excluding Losses				
Operating Expenses:				
Personnel Services Expense	B2(a)	45,791	41,629	37,988
Other Operating Expenses	B2(b)	563,265	500,782	493,896
Depreciation and Amortisation	B2(c)	24,958	16,399	16,272
Grants and Subsidies	B2(d)	189,659	173,555	7,725
Finance Costs	B2(e)	5,720	5,641	5,974
Total Expenses Excluding Losses		829,393	738,006	561,855
Gain/(Loss) on Disposal of Non-Current Assets	B3(a)	128,108	4,011	168
Other Gains/(Losses)	B3(b)	(6,994)	-	20,509
Net Result		4,083	(81,823)	184,390
Other Comprehensive Income				
Items that will not be Reclassified to Net Result:				
Net Increase/(Decrease) in Property, Plant and Equipment Revaluation Surplus	E1(b)	92,615	-	97,139
Total Other Comprehensive Income		92,615	-	97,139
TOTAL COMPREHENSIVE INCOME		96,698	(81,823)	281,529

[The accompanying notes form part of these financial statements]

PROPERTY NSW

Statement of Financial Position

As At 30 June 2018

	Note	Actual 2018 \$'000	Budget 2018 \$'000	Actual 2017 \$'000
ASSETS				
Current Assets				
Cash and Cash Equivalents	C1(a)	164,483	44,225	83,469
Receivables	C2(a)	119,465	245,375	121,495
Non-Current Assets Held for Sale	C3(a)	36,877	30,400	87,973
Total Current Assets		320,825	320,000	292,937
Non-Current Assets				
Receivables	C2(a)	249,888	74,310	230,742
Property, Plant and Equipment	C4(a)	1,117,690	968,004	958,663
Intangible Assets	C6(a)	3,230	4,809	5,716
Other	C7(a)	10,300	8,000	7,400
Total Non-Current Assets		1,381,108	1,055,123	1,202,521
TOTAL ASSETS		1,701,933	1,375,123	1,495,458
LIABILITIES				
Current Liabilities				
Payables	D1(a)	63,358	18,967	32,624
Provisions	D3(a)	41,925	35,197	96,371
Other Liabilities	D4(a)	42,371	13,475	8,497
Total Current Liabilities		147,654	67,639	137,492
Non-Current Liabilities				
Payables	D1(a)	10,694	-	9,480
Borrowings	D2(a)	34,398	34,398	34,398
Provisions	D3(a)	169,344	120,554	118,362
Other Liabilities	D4(a)	33,583	67,380	54,757
Total Non-Current Liabilities		248,019	222,332	216,997
TOTAL LIABILITIES		395,673	289,971	354,489
NET ASSETS		1,306,260	1,085,152	1,140,969
EQUITY				
Accumulated Funds	E1(a)	1,013,443	738,924	918,081
Asset Revaluation Reserve	E1(b)	292,817	346,228	222,888
TOTAL EQUITY		1,306,260	1,085,152	1,140,969

[The accompanying notes form part of these financial statements]

PROPERTY NSW

Statement of Changes in Equity For the Year Ended 30 June 2018

	Note	Asset			Asset		
		Accumulated	Revaluation	Total	Accumulated	Revaluation	Total
		Funds	Reserve	Equity	Funds	Reserve	Equity
		2018	2018	2018	2017	2017	2017
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening Balance		918,081	222,888	1,140,969	667,259	182,211	849,470
Net Result for the Year		4,083	-	4,083	184,390	-	184,390
Other Comprehensive Income							
Transfer of Asset Revaluation Reserve on Disposed Assets	E1(a)	22,686	(22,686)	-	56,462	(56,462)	-
Net Increase/(Decrease) in Property, Plant and Equipment Revaluation Surplus	E1(b)	-	92,615	92,615	-	97,139	97,139
Total Other Comprehensive Income		22,686	69,929	92,615	56,462	40,677	97,139
Total Comprehensive Income for the Year		26,769	69,929	96,698	240,852	40,677	281,529
Transactions with Owners as Owners							
Financial Distributions	E1(a)	(36,338)	-	(36,338)	(17,017)	-	(17,017)
Net Increase/(Decrease) in Net Assets from Equity Transfers	E1(a)	104,931	-	104,931	26,987	-	26,987
Total Transactions with Owners as Owners		68,593	-	68,593	9,970	-	9,970
Closing Balance		<u>1,013,443</u>	<u>292,817</u>	<u>1,306,260</u>	<u>918,081</u>	<u>222,888</u>	<u>1,140,969</u>

[The accompanying notes form part of these financial statements]

PROPERTY NSW

Statement of Cash Flows

For the Year Ended 30 June 2018

	Note	Actual 2018 \$'000	Budget* 2018 \$'000	Actual 2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Personnel Services		(46,421)	(41,629)	(35,481)
Finance Costs		(4,809)	(4,808)	(4,839)
Grants and Subsidies		(189,659)	(173,555)	(7,705)
Other		(534,742)	(513,705)	(524,452)
Total Payments		(775,631)	(733,697)	(572,477)
Receipts				
Sale of Goods and Services		603,933	549,016	522,291
Interest Received		5,839	5,745	6,242
Grants and Contributions		97,414	97,414	177,660
Total Receipts		707,186	652,175	706,193
NET CASH FLOWS FROM OPERATING ACTIVITIES	C1(b)	(68,445)	(81,522)	133,716
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Property, Plant and Equipment		(19,469)	(74,389)	(160,002)
Proceeds from Sale of Property, Plant and Equipment		205,266	131,594	18,747
NET CASH FLOWS FROM INVESTING ACTIVITIES		185,797	57,205	(141,255)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Borrowings and Advances		-	(873)	(866)
Financial Distributions to the State Government	E1(a)	(36,338)	(13,850)	(17,017)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(36,338)	(14,723)	(17,883)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		81,014	(39,040)	(25,422)
Opening Cash and Cash Equivalents		83,469	83,265	108,891
CLOSING CASH AND CASH EQUIVALENTS	C1(a)	164,483	44,225	83,469

* The Budget statement of cash flows was not reported to parliament in 2017-18 Budget Paper No. 3 and instead published online at www.budget.nsw.gov.au.

[The accompanying notes form part of these financial statements]

PROPERTY NSW

Section A: Entity Information and Basis of Preparation

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

A1. REPORTING ENTITY

Property NSW (PNSW) was established under the Property NSW Act 2006 to improve the management of the NSW Government's owned and leased real property portfolio and to become a central agency with a whole-of-government focus on the acquisition, disposition and better utilisation of real property assets. PNSW commenced operations on 1 September 2006 and is domiciled in Australia. Its principal business address is 66 Harrington Street, Sydney NSW 2000. PNSW is a not-for-profit entity as profit is not its principal objective. PNSW is consolidated as part of the NSW Total State Sector Accounts.

Under the Act, PNSW is unable to employ staff. However, to enable it to exercise its functions, PNSW can obtain personnel services from Government agencies who are able to engage staff under Part 4 of the Government Sector Employment Act 2013. During 2017-18, personnel services were provided by the Department of Finance, Services and Innovation (DFSI). The DFSI, a principal department, is a separate reporting entity and does not control PNSW for financial reporting purposes.

These financial statements have been authorised for issue by PNSW's Chief Executive Officer on 20 September 2018.

A2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

PNSW's financial statements are general-purpose financial statements which have been prepared on a "going concern" basis and in accordance with:

- (i) applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- (ii) the requirements of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2015*; and
- (iii) Financial Reporting Directions mandated by the Treasurer.

Property, plant and equipment, assets held for sale and investment property are measured at fair value. Borrowings are initially measured at the fair value of the consideration received and subsequently measured at amortised cost using the effective interest method. Other financial report items are prepared in accordance with the historical cost convention except where specified otherwise.

The accrual basis of accounting has been adopted in the preparation of the financial statements, except for cash flow information.

In the application of PNSW's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are recognised, or in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements, key assumptions and estimations made by management are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars (\$'000) and are expressed in Australian currency.

(b) Statement of Compliance

The financial statements and accompanying notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

PROPERTY NSW

Section A: Entity Information and Basis of Preparation

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(c) Accounting for the Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except that:

- (i) the amount of GST incurred by PNSW as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense;
- (ii) receivables and payables are stated with the amount of GST included; and
- (iii) commitment amounts disclosed in the financial statements include the amount of GST recoverable from, or payable to, the Australian Taxation Office.

Cash flows are included in the Statement of Cash Flows on a gross basis. However, the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(d) Comparative Information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous period for all amounts reported in the financial statements.

(e) Fair Value Measurement and Hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

A number of PNSW's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Under AASB 13 "Fair Value Measurement", PNSW categorises, for disclosure purposes, the valuation techniques based on the inputs used in the valuation techniques as follows:

Level 1 – quoted prices in active markets for identical assets/liabilities that PNSW can access at the measurement date.
Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
Level 3 – inputs that are not based on observable market data (unobservable inputs).

PNSW recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Refer to Notes C4, C5 and F1 for further disclosures regarding fair value measurements of financial and non-financial assets.

(f) Changes in Accounting Policy including New or Revised Australian Accounting Standards

(i) Effective for the First Time in 2017-18

The accounting policies applied in 2017-18 are consistent with those of the previous financial year except as a result of the following revised Australian Accounting Standards that have been applied for the first time in 2017-18:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows.
- AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities.
- AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities.
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle.

The adoption of the above revised Australia Accounting Standards have not had any significant impact on PNSW.

PROPERTY NSW

Section A: Entity Information and Basis of Preparation

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(ii) Issued but Not Yet Effective

NSW public sector entities are not permitted to early adopt new Australian Accounting Standards, unless Treasury determines otherwise. There are a number of recently issued or amended Australian Accounting Standards which are not yet effective and have not been adopted for the reporting period ended 30 June 2018.

The following new Australian Accounting Standards, excluding standards not considered applicable or material to PNSW have not been applied and are not yet effective. The possible impact of these standards in the period of initial application includes:

- AASB 16 "Leases" has application from annual reporting periods on or after 1 January 2019. This standard generally requires a lessee to recognise right-of-use asset and lease liability at a lease's commencement date except for short term and low value asset leases. The requirements for lessor accounting have been carried forward from AASB 117 largely unchanged except that the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If 2017-18 full year financial statements were prepared under AASB 16, the following table summarises the estimated initial impact to PNSW.

	Increase/ (Decrease) 2018 \$'000
Statement of Comprehensive Income	
Revenue	
Sale of Goods and Services	(349,000)
Investment Revenue	54,000
Total Revenue	(295,000)
Expenses	
Property Related Expenses	(388,000)
Depreciation and Amortisation	38,000
Finance Costs	60,000
Total Expenses	(290,000)
Net Result	(5,000)
Statement of Financial Position	
Assets	
Receivables - Finance Lease Receivables	2,068,000
Property, Plant and Equipment - Right of Use Assets	230,000
Total Assets	2,298,000
Liabilities	
Borrowings - Finance Lease Liabilities	2,297,000
Total Liabilities	2,297,000
Net Assets	1,000

- AASB 15 "Revenue from Contracts with Customers", including the amendments AASB 2014-5, AASB 2015-8 and AASB 2016-3 has application from annual reporting periods on or after 1 January 2019. PNSW believes this standard may impact on the timing recognition of certain Fees for Services Rendered Revenue given the core principle of the new standard requires revenue to be recognised at the transaction price when control of the goods or services are transferred to the customer. The model features a contract-based five step analysis of transactions to determine the nature, amount and timing of revenue arising from contracts with customers. PNSW has performed a high level assessment but not detailed assessment on the impact of this new standard.

- AASB 1058 "Income of Not-for-profit Entities" and AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities has application from annual reporting periods on or after 1 January 2019. The introduction of AASB 1058 results in the amendment of AASB 1004 "Contributions" with many of its requirements being revised and relocated to AASB 1058. PNSW is yet to undertake a detailed assessment of the impact of AASB 1058 however management believe the initial adoption may defer the recognition of grant income in some circumstances.

PROPERTY NSW

Section A: Entity Information and Basis of Preparation

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

The impact of the following standards in the period of initial application is not expected to be significant.

Standard	Applicable to Annual Reporting Periods Beginning on or after
AASB 9 "Financial Instruments"	1 January 2018
AASB 2016-6 "Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts"	1 January 2018
AASB 2017-1 "Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments"	1 January 2019
AASB 1059 "Service Concession Arrangements: Grantors"	1 January 2019

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

B1. REVENUE

Recognition and Measurement - Revenue

Revenue is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition and measurement of revenue is discussed within each revenue category below.

(a) Sale of Goods and Services

	2018	2017
	\$'000	\$'000
Property Rental Income - Operating Lease Income (i)	547,222	511,952
Fees for Services Rendered (ii)	61,287	29,324
	608,509	541,276

(i) Property Rental Income - Operating Lease Income - Dissection

	2018	2017
	\$'000	\$'000
Owned Property Income	47,984	42,366
Leased Property Income	508,350	477,866
Less: Amortisation of Lessee Lease Incentives (Note D4(b))	(9,112)	(8,280)
	547,222	511,952

Future Minimum Lease Receipts under Non-Cancellable Operating Leases as Lessor

Receivable within one year	39,749	33,752
Receivable later than 1 year but not later than 5 years	18,678	16,772
Receivable later than 5 years	472	567
Total Including GST	58,899	51,091

The above represents future minimum lease receipts on PNSW's owned properties. Future minimum lease receipts as at 30 June 2018 include GST payable of \$5.35 million (\$4.64 million at 30 June 2017).

Operating lease income is recognised in accordance with AASB 117 "Leases". Lease income from operating leases where PNSW is the lessor is recognised as income in the Statement of Comprehensive Income on a straight-line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned.

Rent reviews for owned government office buildings are conducted at two yearly intervals to update rentals to current market rates. There are no ratchet clauses in place and tenants are charged an effective rental, which takes into consideration incentives available in the market place at a particular point in time.

The terms of occupancy for tenants occupying space in PNSW leased premises, including rentals, incentives and lease terms, are generally aligned with headlease agreement taken out on the premises by PNSW (Note B2(b)(i)).

Tenants are required to makegood leased premises by undertaking a physical makegood or negotiating a financial settlement with PNSW.

- (ii) Revenue from the rendering of services is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date).

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(b) Investment Revenue	2018	2017
	\$'000	\$'000
Property Finance Lease Income ((i) and Note C2(c))	5,642	5,585
Interest Earned (ii)	197	497
	5,839	6,082

- (i) Income from finance leases as lessor includes contingent rent of \$0.7 million in 2017-18 (\$0.8 million in 2016-17). Contingent rent is calculated as the difference between the current lease payments and the minimum lease payments which were determined at the initial recognition of the finance lease arrangement.

Finance lease income is recognised in accordance with AASB 117 "Leases". Lease income from finance leases where PNSW is the lessor is recognised as income in the Statement of Comprehensive Income over the lease period so as to allocate finance income over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant period return on PNSW's net investment in the lease.

The estimated unguaranteed residual value used in computing PNSW's gross investment in each lease is reviewed regularly. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in respect of amounts accrued is recognised immediately. Contingent rent from finance leases as lessor is recognised as income in the period in which it is earned.

- (ii) Interest revenue is recognised using the effective interest method as set out in AASB 139 "Financial Instruments: Recognition and Measurement".

Interest earned is received on cash set aside for remediation on land acquired by the Crown from BHP Billiton in 2002. The cash is held in a separate PNSW bank account within the NSW Treasury Banking System (Note C1(a) and D3(b)).

(c) Grants and Contributions	2018	2017
	\$'000	\$'000
State Government - Recurrent Contribution (i)	7,609	7,964
State Government - Capital Contribution (ii)	89,805	169,696
	97,414	177,660

- (i) PNSW receives an annual recurrent contribution from the State Government for a range of non-commercial professional services undertaken which provide a whole-of-government benefit without further conditions. These services include agency property portfolio reviews, whole-of-town studies, property policy implementation and Property Register administration.
- (ii) PNSW's approved Capital Program is fully funded by the State Government by way of an annual capital contribution without further conditions. The Program includes major works such as refurbishment, compliance and other asset renewal works included under PNSW's Property Refurbishment Program.
- (iii) Grants and contributions are recognised as income when PNSW obtains control over the assets comprising the grant or contribution, it is probable that the economic benefits will flow to PNSW, and the amount of the grant or contribution can be measured reliably. Control is normally obtained upon the receipt of cash.

(d) Other Revenue	2018	2017
	\$'000	\$'000
Emerging Asset Revenue ((i) and Note C7(b))	600	550
	600	550

- (i) In accordance with TPP 06-08 "Accounting for Privately Financed Projects", the Opera House Car Park is an emerging asset which PNSW has a right to receive in the financial year 2042-43 under a privately financed infrastructure arrangement. The right is being recognised as revenue and added to the asset value over the term of the car park concession. Any periodic revaluations are accounted for in accordance with AASB 116 "Property, Plant and Equipment".

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

B2. EXPENSES EXCLUDING LOSSES

(a) Personnel Services Expense (i)	2018	2017
	\$'000	\$'000
Salaries and Wages (Including Recreation Leave)	34,447	25,017
Contractors	5,938	6,111
Voluntary Redundancies	105	2,610
Superannuation (Defined Benefit Plans)	-	(50)
Superannuation (Defined Contribution Plans)	2,436	1,635
Long Service Leave	708	998
Worker's Compensation Insurance	100	(93)
Payroll Tax and Fringe Benefits Tax	2,057	1,760
	45,791	37,988

- (i) The Personnel Services Expense is the expense incurred by PNSW on personnel services provided to it by the Department of Finance, Services and Innovation (DFSI). Under the *Property NSW Act 2006*, PNSW is unable to employ staff (Note A1). PNSW provides these personnel services to other PAG entities and recovers these costs as a service fee.

As PNSW is not an employer, the disclosure requirements of AASB 119 "Employee Benefits" in respect of employee benefits do not apply. Accordingly, PNSW does not recognise any provision for employee entitlements.

(b) Other Operating Expenses	2018	2017
	\$'000	\$'000
Property Head Lease Expense (i)	487,114	456,533
Other Property Related Expenses (ii)	37,990	25,221
Other Operating Expenses (iii)	38,161	12,142
	563,265	493,896

(i) Property Head Lease Expense	2018	2017
	\$'000	\$'000
Minimum Lease Payments (a)	404,855	381,552
Rental Expenses Arising from Sub-Leases (b)	76,503	70,055
Contingent Rentals (c)	14,764	13,206
	496,122	464,813
Less Amortisation of Lessor Lease Incentives ((d) and Note D4(b))	(9,008)	(8,280)
	487,114	456,533

(a) Operating lease payments are recognised in the Net Result and charged on a straight-line basis over the lease term. The majority of head leased office accommodation property is sub-leased to government agencies. The terms of the operating head leases generally range from 3 to 15 years with the option of renewal of further terms. The lease agreements allow Lessors the right to review rents on specified dates.

(b) Expenditure for recurrent outgoings on property leased by PNSW as lessee includes maintenance, electricity, cleaning and expenses for common areas and public risk. This is recovered from sub-lessees.

(c) Contingent rentals are variations due to market rental reviews and changes to the Consumer Price Index between the actual lease and the amounts of minimum lease payments determined at the inception of the lease.

(d) Lease incentives received which are less than \$0.5 million are recognised directly in the Net Result in the year in which they are received. Lease incentives received which are greater than this amount are recognised in the Statement of Financial Position and are allocated to the Net Result over the lease term (Notes D4).

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(ii) Other Property Related Expenses	2018	2017
	\$'000	\$'000
Management Fees (a)	7,797	7,211
Gas and Electricity	2,440	2,797
Maintenance (b)	15,141	6,194
Cleaning	3,251	3,119
Rates and Levies	2,511	866
Security	2,009	1,162
Valuations	609	486
Bad Debts	328	203
Other (c)	3,904	3,183
	37,990	25,221

(a) Management Fees represent fees paid to external service providers for property management services of owned and leased properties.

(b) Maintenance expenses relate to owned properties and include ad-hoc and scheduled maintenance services on lifts, air conditioning units, fire protection systems, plumbing, electrical and other areas. There was no personnel services maintenance expense in 2017-18 (nil in 2016-17).

(c) Items classified as Other include telephone, fire safety, legal, building manager costs, gardening, insurance and sundry charges incurred on properties owned by PNSW.

PNSW's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self-insurance for Government entities. The expense (premium) is determined by the Fund Manager based on past claim experience. Properties owned by PNSW are insured for their replacement value. Management reviews the insurance coverage each year.

(iii) Other Operating Expenses	2018	2017
	\$'000	\$'000
Auditor's Remuneration - Audit of Financial Statements	235	210
Legal Fees	105	119
Consultants	180	555
Office Accommodation Expenses	3,038	2,365
Other Contractors	5,199	2,218
Service Fees - DFSI (a)	14,678	4,506
Computer Costs	2,576	519
Training and Development	334	333
Service Fees - Other (b)	7,603	960
Other (c)	4,213	357
	38,161	12,142

(a) Service Fees - DFSI include fees charged by DFSI for corporate services provided under the DFSI Corporate Operating Model arrangements and by Land and Property Information for system hosting services provided in relation to the Government Property Register.

(b) Service Fees - Other are fees charged by GovConnect relating to outsourced services such as payroll, information technology and central accounting transaction services.

(c) Items classified as Other include advertising, conferences, telephone, printing, stationery, travel, removal and other sundry charges.

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(c) Depreciation and Amortisation

	2018 \$'000	2017 \$'000
Depreciation of Property, Plant and Equipment (Note C4(b))	20,281	11,756
Depreciation of Finance Lease Assets (Note C4(b))	2,243	3,391
Amortisation of Intangible Assets (Note C6(b))	2,434	1,125
	24,958	16,272

Recognition and Measurement - Depreciation and Amortisation

Depreciation is provided for on a straight-line basis for all depreciable non-current assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to PNSW. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

PNSW's buildings are separately componentised into the structure, air conditioning units and lifts where it can be determined that these components:

- (a) physically exist;
- (b) are material enough to justify separate tracking;
- (c) are capable of having a reliable value attributed to them; and
- (d) have differing estimated useful lives to the extent that failure to depreciate them separately would result in a material difference in the annual depreciation expense for PNSW.

The useful lives of PNSW's items of property, plant and equipment are based on the following:

Asset Class	2018 Years	2017 Years
Buildings		
Structure	40	40
Air Conditioning Units	20	20
Lifts	30	30
Computer Equipment and Software	3	3
Furniture and Fittings	10	10
Plant and Equipment and Office Equipment	5	5
Leasehold Improvements	6	6

Leasehold Improvements are depreciated over the shorter of the lease term and their useful life. Heritage buildings are depreciated in accordance with the useful life ranges above. Finance Lease Assets are depreciated over the period of the lease. Fine Arts and Heritage items located within owned buildings are not depreciated as they do not have a limited useful life. These items are however subject to an annual impairment test.

PNSW's intangible assets (computer software) are amortised using the straight-line method over a period of three (3) years.

In accordance with AASB 5 "Non-current Assets Held for Sale and Discontinued Operations", any assets held for sale are not depreciated. Land is also not depreciated as land is not a depreciable asset.

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(d) Grants and Subsidies	2018 \$'000	2017 \$'000
Grants to the Museum of Contemporary Art (i)	2,269	2,261
Contributions to the Restart NSW Fund (ii)	187,390	5,444
Property Transferred to Local Government (Note C4(b))	-	20
	189,659	7,725

- (i) Grants of \$2.3 million in 2017-18 (\$2.3 million in 2016-17) represent payments made to the Museum of Contemporary Art to replace the existing rental guarantee subsidies paid by Place Management NSW pursuant to its lease to the Museum of Contemporary Art.
- (ii) Contributions of \$187.4 million in 2017-18 (\$5.4 million in 2016-17) represent payments made to the Restart NSW Fund (NSW Government's dedicated infrastructure fund) from the net sale proceeds of property assets sold by PNSW. The payments are based on a NSW Government decision that the net sale proceeds of property assets sold by all DFSI entities are to be paid directly into the Restart NSW Fund from 1 July 2015 onward except where the NSW Government has made a separate decision to allocate the net sale proceeds to fund other programs.

(e) Finance Costs	2018 \$'000	2017 \$'000
Finance Lease Interest Charges (Note D2(b))	4,809	4,839
Unwinding of Discount Rate on Make Good Provision (Note D3(c))	-	5
Unwinding of Discount Rate on Land Remediation Provision (Note D3(b))	911	1,130
	5,720	5,974

Finance and borrowing costs are recognised as expenses in the period in which they are incurred, in accordance with Treasury's Mandate to not-for-profit NSW general government sector entities.

B3. GAINS AND LOSSES

(a) Gain/(Loss) on Disposal of Non-Current Assets	2018 \$'000	2017 \$'000
Net Proceeds from Disposal of Non-Current Assets Held for Sale	205,266	18,747
Written Down Value (Note C3(b))	(77,158)	(18,579)
Net Gain/(Loss) on Disposal	128,108	168

In June 2018, PNSW sold a property at Waterloo Road, Macquarie Park under sale and leaseback arrangement resulted in a gain of \$126.2M.

(b) Other Gains/(Losses)	2018 \$'000	2017 \$'000
Net Gain/(Loss) on Revaluation of Property, Plant and Equipment (Note C4(b))	(4,547)	23,779
Net Gain/(Loss) due to Increase in Remediation Provision from Revised Estimate of Liability (Note D3(b))	-	380
Write off of Plant and Equipment (Note C4(b))	(303)	-
Impairment Loss on Work in Progress - Project Costs Recoverable	(2,092)	(834)
Impairment Loss on Non-Current Assets Held for Sale (Note C3(b))	-	(2,746)
Impairment Loss on Intangible Assets (Note C6(b))	(52)	-
Impairment Loss on Work in Progress - Property, Plant and Equipment (Note C4(b))	-	(70)
Other Gains/(Losses)	(6,994)	20,509

PROPERTY NSW

Section B: Financial Performance

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

B4. BUDGET REVIEW

The budgeted amounts are drawn from the original budgeted financial statements presented to Parliament in respect of the reporting period. Subsequent amendments to the original budget (e.g. adjustment for transfer of functions between entities as a result of administrative arrangements orders) are not reflected in the budgeted amounts. Major variances between the original budgeted amounts and the actual amounts disclosed in the primary financial statements are explained below.

(a) Net Result

The Net Result of \$4.0 million was \$85.9 million higher than budget, primarily due to:

- a \$60.0 million increase in Sale of Goods and Services revenue mainly from increase in PAG Service Charges, PAG Integration Charges and increase in Property Rental Income from vested properties in 2017-18 and previous years' sale and leaseback properties;
- a \$62.5 million increase in Other Operating Expenses mainly from increase in DFSI Service Fees including GovConnect, Corporate Services and COM charges, increase in PAG Integration Costs and increase in Property Rental Expenses from vested properties in 2017-18 and previous year sale and leaseback properties.
- a \$16.1 million increase in Grant and Subsidies due to increase in payments to Restart NSW Fund; and
- a \$128.1 million increase in Gain on Disposal of Non-Current Assets mostly due to gain from sale and leaseback transaction of \$126.2M.
- a \$7.0 million increase in Other Losses mainly due to impairment of property assets transferred to UrbanGrowth Development Corporation at lower than fair value and impairment of Work In Progress - Project Costs Recoverable.

(b) Assets and Liabilities

Total Assets of \$1.7 billion were \$326.8 million greater than budget, primarily due to:

- a \$120.2 million increase in Cash and Cash Equivalents mainly due to deferral of budgeted land remediation works of \$33.8 million to future years and deferral of capital spending for construction of new office accommodation for NSW Health at St Leonards of \$63.6M;
- a \$49.6 million increase in Receivables mainly due to an increase in Trade Receivables and Makegood Costs Recoverable; and
- a \$149.7 million in Property, Plant and Equipment mainly due to the net properties transfer in of \$104.9 million and the remaining net revaluation increment recognised in 2017-18.

Total Liabilities of \$395.6 million were \$105.7 million greater than budget, primarily due to:

- a \$55.0 million increase in Payables mainly due to the increase in Sundry Creditors and Accruals of \$35.2 million and \$18.4 million in GST Payable to ATO from tax invoices issued in June 2018; and
- a \$55.5 million increase in Provisions mainly due to deferral of budgeted land remediation works and increase in Provision for Makegood for leased properties; and

(c) Cash Flows

Closing Cash and Cash Equivalents of \$164.8 million was \$120.2 million greater than budget, primarily due to:

- a \$33.8 million increase due to deferral of budgeted land remediation works to future years; and
- a \$63.6 million increase due to deferral of capital spending for construction of new office accommodation for NSW Health at St Leonards.

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

C1. CASH AND CASH EQUIVALENTS

(a) Cash and Cash Equivalents - Dissection	2018 \$'000	2017 \$'000
Current		
Cash at Bank and On Hand (i)		
Operating Funds	150,406	54,485
Restricted Cash:		
Land Remediation Funds (ii)	7,477	21,823
Agency Property Transaction Monies (iii)	6,600	7,161
Total Cash and Cash Equivalents	164,483	83,469

- (i) Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on PNSW's Land Remediation Account daily bank balance at the monthly average NSW Treasury Corporation 11am unofficial cash rate, adjusted for a management fee to NSW Treasury. All other bank accounts are non-interest bearing within the NSW Treasury Banking System.

For the purposes of the Statement of Cash Flows, cash includes Cash at Bank and Restricted Cash.

All of PNSW's cash deposits are held within NSW Treasury Banking System bank accounts. All deposits held within the NSW Treasury Banking System are guaranteed by the State.

- (ii) A total of \$7.5 million (\$21.8 million at 30 June 2017) is set aside and can only be used for remediation on Newcastle lands acquired by the Crown from BHP Billiton in 2002.

- (iii) A total of \$6.6 million (\$7.2 million at 30 June 2017) was held "on trust" on behalf of other government agencies and can only be used for property acquisition and divestment transactions in progress, negotiations for which were being undertaken by PNSW under formal agreement with those agencies (Note D1(a)).

Interest Rate Risk

The effect on the Net Result and Equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk and other price risk. A reasonably possible change in risk variable has been determined after taking into account the economic environment in which PNSW operates and the time frame for the assessment (i.e. until the end of the next annual reporting period). The sensitivity analysis is based on risk exposures in existence at 30 June 2018. The analysis is performed on the same basis as for 2017. The analysis assumes that all other variables remain constant.

Exposure to interest rate risk arises primarily through PNSW's Cash and Cash Equivalents. PNSW does not account for any fixed rate financial instruments at fair value through profit or loss or as available for sale. Therefore for these financial instruments a change in interest rates would not affect profit or loss or equity. A reasonably possible change of +/-1% is used, consistent with current trends in interest rates (based on official RBA interest rate volatility over the last five years). The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. PNSW's exposure to interest rate risk is set out below.

Interest Rate Risk - 2018	Carrying Amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial Assets					
Cash and Cash Equivalents	7,477	(75)	(75)	75	75
Interest Rate Risk - 2017	Carrying Amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial Assets					
Cash and Cash Equivalents	21,823	(218)	(218)	218	218

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(b) Reconciliation of Net Cash Flows from Operating Activities to Net Result	2018	2017
	\$'000	\$'000
Net Cash Flow From Operating Activities	(68,445)	133,716
Non Cash Revenue/(Expenses):		
Emerging Asset Increment/(Decrement) (Note B1(d))	600	550
Depreciation and Amortisation (Note B2(c))	(24,958)	(16,272)
Gain/(Loss) on Disposal of Non-Current Assets (Note B3(a))	128,108	168
Other Gains/(Losses) (Note B3(b))	(6,994)	20,509
Changes in Operating Assets and Liabilities:		
Increase/(Decrease) in Receivables	(11,164)	41,452
Decrease/(Increase) in Payables	(38,747)	(11,084)
Decrease/(Increase) in Provisions	26,655	14,719
Decrease/(Increase) in Other Liabilities	(972)	632
Net Result	4,083	184,390

(c) Non-Cash Financing and Investing Activities

The following transactions did not involve the use of cash or cash equivalents and are therefore not included in the Statement of Cash Flows.

Non-Cash Investing Activities	2018	2017
	\$'000	\$'000
Properties transferred from other Government Agencies (Note C4(b))	114,331	26,987
Properties transferred to other Government Agency (Note C4(b))	(9,400)	-
Property transferred to Local Government (Note B2(d))	-	(20)
Total Non-cash Investing Activities	104,931	26,967

C2. RECEIVABLES

(a) Receivables - Current and Non-Current Dissection	2018	2017
	\$'000	\$'000
Current		
Trade Receivables:		
Property Rental	10,192	9,990
Fees for Services Rendered	24,873	15,283
Less: Impairment Allowance (b)	(2,295)	(818)
Subtotal - Trade Receivables	32,770	24,455
Other Receivables:		
Work in Progress - Net Project Costs Recoverable	4,502	9,657
Goods and Services Tax Recoverable	-	13,968
Finance Lease Receivables (c)	4,035	4,035
Lessee Lease Incentives (d)	7,495	8,497
Makegood Costs Recoverable (e)	41,209	38,532
Fitout Construction Receivable (Note D1(a))	-	112
Accrued Rental Income	11,992	9,749
Accrued Fees for Services Rendered	3,564	2,869
Receivables from PAG Entities	12,136	6,900
Prepayments	1,762	1,683
Other	-	1,038
Subtotal - Other Receivables	86,695	97,040
Total Current Receivables	119,465	121,495

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

Non-Current

Other Receivables:

Finance Lease Receivables (c)	64,016	63,143
Lessee Lease Incentives (d)	34,689	39,757
Makegood Costs Recoverable (e)	140,115	118,362
Receivable from Lessees (Note D1(a))	10,694	9,480
Other Non-Current Receivables	374	-
Total Non-Current Receivables	249,888	230,742

(b) Impairment Allowance

Movement:

Carrying Amount at 1 July	818	794
Amount Written Off	-	(179)
Increase/(Decrease) in Allowance	1,477	203
Carrying Amount at 30 June	2,295	818

(c) Finance Lease Receivables

Movement:

Carrying Amount at 1 July	67,178	66,366
Lease Payments Received	(4,769)	(4,773)
Property Finance Lease Income (Note B1(b))	5,642	5,585
Carrying Amount at 30 June	68,051	67,178

(i) Reconciliation between Gross Investment in Finance Leases as Lessor and the Present Value of the Minimum Lease Payments Receivable

Gross Investment in Finance Leases as Lessor	297,552	301,588
Less: Unearned Finance Income	(229,501)	(234,410)
Present Value of the Minimum Lease Payments Receivable	68,051	67,178

(ii) Aged Reconciliation of the Gross Investment in Finance Leases as Lessor

Not later than one year	4,035	4,035
Later than one year and not later than five years	16,141	16,141
Later than five years	277,376	281,412
Gross Investment in Finance Leases as Lessor	297,552	301,588

(iii) Aged Reconciliation of the Present Value of the Minimum Lease Payments Receivable

Not later than one year	4,035	4,035
Later than one year and not later than five years	13,313	13,313
Later than five years	50,703	49,830
Present Value of the Minimum Lease Payments Receivable	68,051	67,178

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

- (iv) Finance leases as lessor, in which substantially all the risks and rewards incidental to legal ownership are transferred by PNSW to the lessee, are classified in the Statement of Financial Position as Finance Lease Receivables and recognised at an amount equal to the net investment in the lease. Lessee finance lease payments are treated by PNSW as repayment of principal and finance income over the lease term to reimburse and reward PNSW's investment and services. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

PNSW's material leasing arrangements which give rise to finance lease receivables involve owned properties which are leased to tenants under lease terms of 50 years or more.

Land under a long term lease, where PNSW is lessor, is classified as a finance lease if it satisfies the provisions of AASB 117 "Leases" and Treasury policy TPP 11-01 "Accounting Policy: Lessor classification of long-term land leases". For long term lease classified as finance lease, a finance lease receivable is recognised at lease commencement equal to the minimum lease payments plus any unguaranteed residual value at the end of lease, discounted at the interest rate implicit in the lease. Throughout the term of such a lease, finance lease income is recognised each period, calculated as the lease receivable multiplied by the interest rate implicit in the lease.

The unguaranteed residual value of all finance leases as lessor accruing to the benefit of PNSW as at 30 June 2018 is \$19.0 million (\$18.9 million at 30 June 2017).

(d) Lessee Lease Incentives

Movement:

Carrying Amount at 1 July (i)

Add Lease Incentives Provided

Less Current Year Amortisation (Note B1(a))

Carrying Amount at 30 June

Current Asset

Non-Current Asset

Carrying Amount at 30 June

	2018	2017
	\$'000	\$'000
Carrying Amount at 1 July (i)	48,254	50,890
Add Lease Incentives Provided	3,042	5,644
Less Current Year Amortisation (Note B1(a))	(9,112)	(8,280)
Carrying Amount at 30 June	42,184	48,254
Current Asset	7,495	8,497
Non-Current Asset	34,689	39,757
Carrying Amount at 30 June	42,184	48,254

- (i) Lessee lease incentives provided relate to incentives given to PNSW under head lease agreements which PNSW has passed on to government agency tenants under sub-lease arrangements. Lessee lease incentives are amortised over the term of each lease and are recognised as a reduction to Property Rental Income under Sale of Goods and Services in the Statement of Comprehensive Income (Note B1(a)).

(e) Makegood Costs Recoverable

Movement:

Carrying Amount at 1 July

Increase in Recoverable from Unwinding of Discount Rate (Note D3(c))

Increase/(Decrease) in Recoverable from Revised Estimate of Liability (Note D3(c))

Decrease in Recoverable from Payments (Note D3(c))

Carrying Amount at 30 June

Current Asset

Makegood Costs Recoverable (Note D3(c))

Less Payments Received in Advance

Total Current Asset at 30 June

Non-Current Asset

Makegood Costs Recoverable (Note D3(c))

Total Non-Current Asset at 30 June

Carrying Amount at 30 June

	2018	2017
	\$'000	\$'000
Carrying Amount at 1 July	156,896	147,377
Increase in Recoverable from Unwinding of Discount Rate (Note D3(c))	2,872	2,417
Increase/(Decrease) in Recoverable from Revised Estimate of Liability (Note D3(c))	25,537	10,268
Decrease in Recoverable from Payments (Note D3(c))	(3,981)	(3,166)
Carrying Amount at 30 June	181,324	156,896
Current Asset		
Makegood Costs Recoverable (Note D3(c))	41,209	39,464
Less Payments Received in Advance	-	(930)
Total Current Asset at 30 June	41,209	38,534
Non-Current Asset		
Makegood Costs Recoverable (Note D3(c))	140,115	118,362
Total Non-Current Asset at 30 June	140,115	118,362
Carrying Amount at 30 June	181,324	156,896

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(f) Recognition and Measurement - Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is an amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are recognised in the Net Result when impaired, derecognised or through the amortisation process.

When there is objective evidence that the amounts due will not be collected, PNSW recognises an allowance for impairment. The amount of the allowance is the difference between the receivable's carrying amount and the amount expected to be received. When an impairment is recognised, the loss is recorded in the Net Result for the year. Where there is objective evidence of recovering a previously impaired receivable, the reversal of impairment losses is also recognised through the net result for the year.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial. Such receivables, which generally have 30-day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

(g) Credit Risk - Trade Debtors

All trade debtors are recognised as amounts receivable at balance date. Collectability of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when there is objective evidence that PNSW will not be able to collect all amounts due. This evidence includes past experience, current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors. Sales are made on 30-day terms.

PNSW is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. Based on past experience, debtors which are not past due totalling \$8.8 million (\$11.0 million at 30 June 2017) are not considered impaired and these represent 21.5% (43.7% at 30 June 2017) of the total trade debtors. Most of PNSW's debtors are NSW Government Agencies and therefore have an AAA credit rating. There are no debtors which are currently not past due or impaired whose terms have been renegotiated.

The only financial assets that are past due or impaired are trade debtors relating to property rental and fees-for-services income. These are included within Receivables in the Statement of Financial Position.

Credit Risk - 2018					
	<1 Mth	>1 <2 Mths	Overdue >2 <3 Mths	>3 Mths	Total 2018
Financial Assets	\$'000	\$'000	\$'000	\$'000	\$'000
Receivables:					
Past Due But Not Impaired	17,766	2,198	3,673	6,180	29,817
Considered Impaired	-	-	-	2,295	2,295
Total Credit Risk	17,766	2,198	3,673	8,475	32,112
Credit Risk - 2017					
	<1 Mth	>1 <2 Mths	Overdue >2 <3 Mths	>3 Mths	Total 2017
Financial Assets	\$'000	\$'000	\$'000	\$'000	\$'000
Receivables:					
Past Due But Not Impaired	7,184	1,938	1,210	3,082	13,414
Considered Impaired	-	-	-	818	818
Total Credit Risk	7,184	1,938	1,210	3,900	14,232

- Each row in the above table reports "gross receivables".
- The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the Total Credit Risk line will not reconcile to the receivables total recognised in the Statement of Financial Position.

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

C3. NON-CURRENT ASSETS HELD FOR SALE

(a) Non-Current Assets Held for Sale - Dissection

	2018 \$'000	2017 \$'000
Current		
Land	35,578	87,095
Building	1,299	878
Total Non-Current Assets Held for Sale	36,877	87,973

(b) Reconciliation of Opening and Closing Carrying Amounts

	2018 \$'000	2017 \$'000
Non-Current Assets Held for Sale		
Carrying Amount at 1 July	87,973	52,086
Reclassification from Property, Plant and Equipment - Land (Note C4(b))	24,727	45,200
Reclassification from Property, Plant and Equipment - Buildings (Note C4(b))	1,335	12,012
Impairment Loss (Note B3(b))	-	(2,746)
Disposals (Note B3(a))	(77,158)	(18,579)
Carrying Amount at 30 June	36,877	87,973

(c) Recognition and Measurement - Non-Current Assets Held for Sale

PNSW has certain non-current assets classified as held for sale, where their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-Current Assets Held for Sale are recognised at the lower of carrying amount and fair value less costs to sell. These assets are not depreciated while they are classified as held for sale.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

C4. PROPERTY, PLANT AND EQUIPMENT

(a) Property, Plant and Equipment - Dissection

	2018 \$'000	2017 \$'000
Non-Current		
Land		
At Fair Value	419,393	424,217
Carrying Amount at 30 June	419,393	424,217
Buildings		
At Fair Value	247,106	163,538
Less Accumulated Depreciation	-	-
Carrying Amount at 30 June	247,106	163,538
Plant and Equipment		
At Fair Value	11,758	10,415
Less Accumulated Depreciation	(4,798)	(4,942)
Carrying Amount at 30 June	6,960	5,473
Finance Lease Assets		
At Fair Value	262,600	209,700
Less Accumulated Depreciation	-	-
Carrying Amount at 30 June	262,600	209,700
Works in Progress	181,631	155,735
Total Property, Plant and Equipment at 30 June	1,117,690	958,663

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

Total Property, Plant and Equipment

At Cost or Fair Value	1,122,488	963,605
Accumulated Depreciation and Amortisation	(4,798)	(4,942)
Total Property, Plant and Equipment Carrying Amount at 30 June	1,117,690	958,663

(b) Reconciliation of Opening and Closing Carrying Amounts

Land

	2018 \$'000	2017 \$'000
Carrying Amount at 1 July	424,217	397,321
Transfer from Works in Progress	-	61
Transfers from other Government Agencies (Note E1(a)(ii))	45,126	11,078
Transfer from Buildings	-	(2,227)
Reclassification to Non-Current Asset Held for Sale (Note C3(b))	(24,727)	(54,442)
Transfer to other Government Agency (Note E1(a)(ii))	(9,400)	-
Transfer to Local Government (Note B2(d))	-	(20)
Net Revaluation Reserve Increment/(Decrement) (Note E1(b))	(11,923)	48,667
Net Revaluation Increment/(Decrement) Recognised in the Net Result (Note B3(b))	(3,900)	23,779
Carrying Amount at 30 June	419,393	424,217

Buildings

Carrying Amount at 1 July	163,538	151,954
Transfer from Works in Progress	-	1,491
Transfers from other Government Agencies (Note E1(a)(ii))	69,205	15,909
Transfer to Land	-	2,227
Reclassification to Non-Current Asset Held for Sale (Note C3(b))	(1,335)	(2,770)
Net Revaluation Reserve Increment/(Decrement) (Note E1(b))	35,058	5,073
Net Revaluation Increment/(Decrement) Recognised in the Net Result (Note B3(b))	(647)	-
Depreciation Expense (Note B2(c))	(18,713)	(10,346)
Carrying Amount at 30 June	247,106	163,538

Plant and Equipment

Carrying Amount at 1 July	5,473	4,797
Additions	-	20
Write Off (Note B3(b))	(303)	-
Transfer from Works in Progress	3,969	2,066
Net Revaluation Reserve Increment/(Decrement) (Note E1(b))	(611)	-
Depreciation Expense (Note B2(c))	(1,568)	(1,410)
Carrying Amount at 30 June	6,960	5,473

Finance Lease Assets

Carrying Amount at 1 July	209,700	170,094
Transfer from/(to) Works in Progress	-	(2)
Net Revaluation Reserve Increment/(Decrement) (Note E1(b))	55,143	42,999
Depreciation Expense (Note B2(c))	(2,243)	(3,391)
Carrying Amount at 30 June	262,600	209,700

Works in Progress

Carrying Amount at 1 July	155,735	5,360
Additions	29,865	159,009
Transfer to Land and Buildings	-	(1,491)
Transfer to Land	-	(61)
Transfer to Plant and Equipment	(3,969)	(2,066)
Transfer from/(to) Finance Lease Assets	-	2
Transfer to Intangible Assets (Note C6(b))	-	(4,948)
Impairment Loss (Note B3(b))	-	(70)
Carrying Amount at 30 June	181,631	155,735

Total Property, Plant and Equipment Carrying Amount at 30 June

1,117,690	958,663
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PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(c) Recognition and Measurement - Property, Plant and Equipment

(i) Acquisitions of Assets

Acquisition of assets is recognised when the risks and rewards of the asset have passed to the buyer. On property assets, this usually coincides with when the legal title passes to the buyer, which is upon settlement of a contract.

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by PNSW. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition (see also assets transferred as a result of an equity transfer (Note E1(a)).

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent; i.e. deferred payment amount is effectively discounted over the period of credit.

(ii) Capitalisation Thresholds

Plant and equipment, and intangible assets costing \$5,000 and above individually (or forming part of a network costing more than \$5,000) are capitalised.

Property expenditure that gives rise to an effective and material increase in the future economic benefits of the property to PNSW is capitalised. The general threshold for property expenditure capitalisation is \$30,000.

Expenditure capitalised as at 30 June 2018 and recorded under Works In Progress relates to acquisition of land and construction of new office accommodation, refurbishment works in various office buildings and PNSW corporate capital projects totalling \$181.6 million (2017: \$155.7m).

(iii) Revaluation of Property, Plant and Equipment

Physical non-current assets are valued in accordance with Treasury Policy and Guidelines Paper TPP 14-01 "Valuation of Physical Non-Current Assets at Fair Value". This policy adopts fair value in accordance with AASB 13 "Fair Value Measurement", AASB 116 "Property, Plant and Equipment" and AASB 140 "Investment Property".

Property, Plant and Equipment is measured at the highest and best use by market participants that is physically possible, legally permissible and financially feasible. The highest and best use must be available at a period that is not remote and take into account the characteristics of the asset being measured, including any socio-political restrictions imposed by government. In most cases, after taking into account these considerations, the highest and best use is the existing use. In limited circumstances, the highest and best use may be a feasible alternative use, where there are no restrictions on use or where there is a feasible higher restricted alternative use.

Fair value of Property, Plant and Equipment is based on a market participants' perspective, using valuation techniques (market approach, cost approach, income approach) that maximise relevant observable inputs and minimise unobservable inputs. PNSW revalues each class of property, plant and equipment on an annual basis to ensure that the carrying amount of each asset in the class does not differ materially from its fair value at reporting date.

Non-specialised assets with short useful lives are measured at depreciated historical cost, as an approximation of fair value.

When revaluing assets, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements, respectively.

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

All properties within the asset classes of Land and Buildings (classified under Property Plant and Equipment) were independently valued as at 30 June 2018 and PNSW conducts a comprehensive revaluation on three-year cyclical basis. Qualified valuers, Cushman and Wakefield and Preston Rowe Paterson were engaged to provide PNSW with independent property valuation reports. Each firm provided individual valuations on a sub-set of properties assigned to them. The valuations took into consideration changes to market and economic conditions that have occurred since 30 June 2017 as well as the previous valuation reports.

Revaluation increments are credited directly to revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised immediately as revenue in the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of assets, they are debited directly to the revaluation reserve.

As a not-for-profit entity, revaluation increments and decrements respectively are offset against one another within a class of non-current assets, but not otherwise.

Where an asset that has previously been revalued is disposed of, any balance remaining in the revaluation reserve in respect of that asset is transferred to accumulated funds.

(iv) Finance Lease Assets

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits. Leases in which a significant portion of the risks and rewards of ownership are not transferred to PNSW as lessee are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive income on a straight-line basis over the period of the lease.

Property, Plant and Equipment acquired under finance leases are recognised, at the commencement of the lease, at an amount equal to the fair value of the leased property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as Finance Lease Liabilities under Borrowings (Note D2). Lease payments are allocated between the principal component of the lease liability and the finance cost (interest expense). The finance cost is charged to expenses over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

After recognition as an asset, an item of property, plant and equipment acquired under finance lease is measured at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Finance leased assets are revalued as part of the property, plant and equipment revaluation process.

The Finance Lease assets recognised by PNSW as at 30 June 2018 relate to a part of the 52 Martin Place building, Sydney. The 52 Martin Place building finance lease asset is being amortised over the life of the lease. It was independently revalued on 30 June 2018 by qualified valuer, Knight Frank who has recent experience in comparable markets and the category of the finance lease asset being valued.

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(v) Impairment of Property, Plant and Equipment

As a not-for-profit entity with no cash generating units, impairment under AASB 136 "Impairment of Assets" is unlikely to arise. As property, plant and equipment is carried at fair value, impairment can only arise in the rare circumstances where the costs of disposal are material. Specifically, impairment is unlikely for not-for-profit entities given that AASB 136 modifies the recoverable amount test for non-cash generating assets of not-for-profit entities to the higher of fair value less costs of disposal and depreciated replacement cost, where depreciated replacement cost is also fair value.

PNSW assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, PNSW estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

As a not-for-profit entity, an impairment loss is recognised in the net result to the extent the impairment loss exceeds the amount in the revaluation surplus for the class of asset.

(vi) Restoration Costs

The present value of the expected cost for the restoration or cost of dismantling of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

(vii) Major Inspection Costs

When each major inspection is performed, the labour cost of performing inspections for faults is recognised in the carrying amount of an asset as a replacement of a part, if the recognition criteria are satisfied.

(viii) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or component of an asset, in which case the costs are capitalised and depreciated.

C5. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis (Refer to Notes A2(e), C4 and C6):

(a) Fair Value Hierarchy

2018	Level 1	Level 2	Level 3	Total Fair Value
	\$'000	\$'000	\$'000	\$'000
Property, Plant and Equipment (Note C3)				
Land	-	419,393	-	419,393
Buildings	-	247,106	-	247,106
Finance Lease Assets	-	262,600	-	262,600
Other Asset (Note C7)				
Emerging Asset	-	10,300	-	10,300
	-	939,399	-	939,399
2017	Level 1	Level 2	Level 3	Total Fair Value
	\$'000	\$'000	\$'000	\$'000
Property, Plant and Equipment (Note C3)				
Land	-	424,217	-	424,217
Buildings	-	163,538	-	163,538
Finance Lease Assets	-	209,700	-	209,700
Other Asset (Note C7)				
Emerging Asset	-	7,400	-	7,400
	-	804,855	-	804,855

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

There were no transfers between Level 1 or 2 during 2017-18 (Nil in 2016-17). The 'Total Fair Value' above includes assets measured at fair value and will not reconcile to the total Property, Plant and Equipment recognised in the Statement of Financial Position as this includes assets which are measured at depreciated historical cost, as an approximation of fair value. These non-specialised assets do not require fair value hierarchy disclosures under AASB 13 "Fair Value Measurement".

(b) Valuation Techniques, Input and Processes

PNSW's Property, Plant and Equipment and Other Asset assets are traded in active markets. The fair values of these assets are estimated using valuation techniques that maximise the use of observable market inputs, for example market sale, market rent and interest rates. If all significant inputs required to fair value an asset are observable, the asset is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset is included in Level 3. The valuation process is managed by PNSW's Property Management Group (PMG) who engages external independent valuers to perform the valuations of property assets required for financial reporting purposes. The valuation reports are subsequently reviewed by relevant PMG Asset Managers prior to being endorsed by senior management.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

C6. INTANGIBLE ASSETS

(a) Intangible Assets - Dissection

Non-Current

Intangible Assets - Computer Software

Gross Carrying Amount

Less Accumulated Amortisation

Total Intangible Assets - Computer Software at 30 June

2018	2017
\$'000	\$'000
10,322	10,957
(7,092)	(5,241)
3,230	5,716

(b) Reconciliation of Opening and Closing Carrying Amounts

Intangible Assets - Computer Software

Carrying Amount at 1 July

Transfer from Works in Progress (Note C4(b))

Impairment Loss (Note B3(b))

Amortisation Expense (Note B2(c))

Carrying Amount at 30 June

2018	2017
\$'000	\$'000
5,716	1,893
-	4,948
(52)	-
(2,434)	(1,125)
3,230	5,716

(c) Recognition and Measurement - Intangible Assets

PNSW recognises intangible assets only if it is probable that future economic benefits will flow to PNSW and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition. All research costs are expensed. Development costs are only capitalised when certain criteria are met.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for PNSW's intangible assets, the assets are carried at cost less any accumulated amortisation.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

PROPERTY NSW

Section C: Assets

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

C7. OTHER ASSETS

(a) Other Assets - Dissection	2018	2017
	\$'000	\$'000
Non-Current		
Emerging Asset		
At Fair Value	10,300	7,400
Total Other Assets at 30 June	10,300	7,400
(b) Reconciliation of Opening and Closing Carrying Amounts	2018	2017
	\$'000	\$'000
Other Assets - Emerging Asset		
Carrying Amount at 1 July	7,400	6,450
Net Revaluation Reserve Increment/(Decrement) (Note E1(b))	2,300	400
Emerging Asset Increment (Note B1(d))	600	550
Total Carrying Amount at 30 June	10,300	7,400

(c) Recognition and Measurement - Emerging Asset

An emerging asset in relation to the Sydney Opera House Car Park is recognised under Non-Current Assets - Other. The car park land, which is recognised as a Finance Lease Receivable, was leased to a private consortium on a 50 year ground lease which commenced on 13 March 1993. The lessee has constructed, at its own expense, a subterranean car park which has an assessed economic life of greater than 50 years. At the expiration of the lease term PNSW has the right to receive the car park.

The emerging value of the car park is \$10.3 million at 30 June 2018 (\$7.4 million at 30 June 2017). The emerging value is being allocated to revenue and Non-Current Assets - Other during the term of the lease as if it were the compound value of an annuity discounted at the NSW Government bond rate applicable at 13 March 1993, being 8.25%.

Qualified valuer, Cushman & Wakefield was engaged to provide an independent fair value valuation of the lessor's interest in the freehold property subject to the existing lease as prescribed under Treasury Accounting Policy TPP 06-8 "Accounting for Privately Financed Projects" as at 30 June 2018.

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Section D: Liabilities

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

D1. PAYABLES

(a) Payables - Current and Non-Current Dissection

	2018	2017
	\$'000	\$'000
Current		
Sundry Creditors and Accruals	35,187	20,380
Goods and Services Tax Payables	18,430	-
Fitout Construction Payable (Note C2(a))	-	112
Agency Property Transaction Monies (Note C1(a))	6,600	7,161
Payable to Personnel Services Provider (Note A1 and B2(a))	3,141	4,971
Total Current Payables	63,358	32,624
Non-Current		
Payable to Lessor (Note C2(a))	10,694	9,480
Total Non-Current Payables	10,694	9,480

(b) Recognition and Measurement - Payables

Payables represent liabilities for goods and services provided to PNSW and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

PNSW's payables are all non-interest bearing. Payable items which are out of the scope of AASB 7 "Financial Instruments: Disclosures" have been excluded from the carrying amount shown in the Statement of Financial Position.

(c) Liquidity Risk

Liquidity risk is the risk that PNSW will be unable to meet its payment obligations when they fall due. PNSW continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of available cash. PNSW's exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. PNSW's exposure to liquidity risk is deemed insignificant based on prior period data and current assessment of risk.

(d) Maturity Profile

All of PNSW's payables and accruals have a maturity of less than 12 months (2017: less than 12 months). Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in NSW Treasury Circular 11/12. For small business suppliers, where terms are not specified, payment is made not later than 30 days from date of receipt of a correctly rendered invoice. For other suppliers, if trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. For small business suppliers, where payment is not made within the specified time period, simple interest must be paid automatically unless an existing contract specifies otherwise. For payments to other suppliers, PNSW may automatically pay the supplier simple interest. The rate of interest applied by PNSW accords with the current rate applicable under section 22 of the *Taxation Administration Act 1996*.

A maturity profile analysis of PNSW's Finance Lease liabilities is presented at Note D2(c).

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Section D: Liabilities

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

D2. BORROWINGS

(a) Borrowings - Non-Current Dissection	2018	2017
	\$'000	\$'000
Non-Current		
Finance Lease Liabilities (b)	34,398	34,398
Total Non-Current Borrowings	34,398	34,398
(b) Finance Lease Liabilities	2018	2017
	\$'000	\$'000
Movement:		
Carrying Amount at 1 July	34,398	35,264
Minimum Lease Payments	(4,809)	(5,705)
Finance Lease Interest Charges (Note B2(e))	4,809	4,839
Carrying Amount at 30 June	34,398	34,398
(c) Finance Lease Commitments	2018	2017
	\$'000	\$'000
Minimum Lease Payments:		
Payable within one year	4,808	4,808
Payable later than one year but not later than five years	19,234	19,234
Payable later than five years	416,734	421,542
Total Minimum Lease Payment Commitment	440,776	445,584
Finance Costs:		
Payable within one year	(4,808)	(4,808)
Payable later than one year but not later than five years	(19,234)	(19,234)
Payable later than five years	(382,336)	(387,144)
Total Finance Costs Commitment	(406,378)	(411,186)
Present Value of Finance Lease Commitments:		
Payable within one year	-	-
Payable later than one year but not later than five years	-	-
Payable later than five years	34,398	34,398
Total Present Value of Finance Lease Commitments	34,398	34,398
(d) Recognition and Measurement - Finance Lease Liabilities		

PNSW's borrowings represent finance lease liabilities. The finance lease liabilities are determined in accordance with AASB 117 "Leases".

PNSW's Finance Lease Liabilities comprises of a lease on part of the 52 Martin Place building, Sydney. The 52 Martin Place lease liability is being amortised over the lease term, which is 124.25 years and ends in March 2110. The discount rate implicit in the lease is 14.91% pa. The Finance Lease Liabilities are secured by the assets leased (Note C3).

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Section D: Liabilities

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

D3. PROVISIONS

(a) Provisions - Current and Non-Current Dissection

	2018 \$'000	2017 \$'000
Current		
Land Remediation (b)	716	56,601
Makegood Restoration ((c) and Note C2(e))	41,209	39,464
Makegood Restoration - PNSW Self Occupied Premises (c)	-	306
Total Current Provisions	41,925	96,371
Non-Current		
Land Remediation (b)	29,229	-
Makegood Restoration ((c) and Note C2(e))	140,115	118,362
Total Non-Current Provisions	169,344	118,362

(b) Land Remediation

	2018 \$'000	2017 \$'000
Movement:		
Carrying Amount at 1 July	56,601	71,321
Decrease in Provision from Payments	(14,919)	(15,470)
Increase in Provision from Unwinding of Discount Rate (Note B2(e))	911	1,130
Increase/(Decrease) in Provision from Revised Estimate of Liability Recognised in Asset Revaluation Reserve (Note E1(b))	(12,648)	-
Increase/(Decrease) in Provision from Revised Estimate of Liability Recognised in Net Result (Note B3(b))	-	(380)
Carrying Amount at 30 June	29,945	56,601

Land remediation provisions as at 30 June 2018 relate to Newcastle landholdings (i) and Hunter's Hill landholdings (ii).

(i) Newcastle Landholdings

In June 2002, the Crown acquired the former BHP main steel works site at Mayfield and the Kooragang Islands waste emplacement sites in the Newcastle ports area. These sites required remediation to remove various contaminants associated with steel making. As part of the acquisition, the Crown negotiated for BHP Billiton to pay an amount to compensate for the total estimated cost of the land remediation and other works. In February 2007, the landholdings, remaining remediation liability and cash balance were transferred to PNSW.

In July 2009, management control for two parcels of the unremediated land at Mayfield and the Kooragang Island site were transferred to the Newcastle Port Corporation (NPC). At 30 June 2018, PNSW retained ownership of the remaining parcel of the former steel works site at Mayfield (known as Mayfield Lot 1).

The Hunter Development Corporation (HDC) is the agency assigned by Government to undertake the remediation works. Under arrangement, PNSW periodically reimburses the HDC for works undertaken and each year, the HDC provides PNSW with a revised estimate of costs remaining to complete the works. Calculation of this estimate is based on current technical studies and analysis taking into account current and future contract costs, referable to awarded contracts where available. Where necessary, costs are indexed and discounted using general construction industry data available.

The majority of remediation works has been completed in 2017-18 with some minor remediation works to be completed in 2018-19.

(ii) Hunter's Hill Landholdings

In June 2009, PNSW acquired land at lots 7, 9 and 11 Nelson Parade Hunter's Hill. Each of these lots are situated on a former uranium smelter site and, as part of the land transfers, the NSW Government has given PNSW the responsibility to remediate the contaminated land. PNSW has estimated and recognised a remediation liability at the reporting date for all three lots. This estimate has been determined using quotes, contract and tender details available as at 30 June 2018. Minor works were undertaken in 2017-18, however the remaining remediation will be undertaken and completed in future years.

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Section D: Liabilities

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(c) Makegood Restoration	2018 \$'000	2017 \$'000
Movement:		
Carrying Amount at 1 July	158,132	148,608
Increase in Provision from Unwinding of Discount Rate (Note C2(e))	2,872	2,417
Increase in Provision from Unwinding of Discount Rate - PNSW Occupied Premises (Note B2(e))	-	5
Increase/(Decrease) in Provision from Revised Estimate of Liability (Note C2(e))	24,301	10,268
Decrease in Provision from Payments (Note C2(e))	(3,981)	(3,166)
Carrying Amount at 30 June	181,324	158,132

The makegood restoration liability is calculated on all leased properties, where PNSW is the lessee and reflects an estimate of the cost to makegood the premises to their original condition at the end of the lease term. The makegood costs are recoverable in full from the sub-lessees except for PNSW self-occupied premises which totalled \$0.3 million at 30 June 2017. An average discount rate of 2.00% was used at 30 June 2018 (1.82% as at 30 June 2017) and the level of the provision is reviewed at the end of each year. Any movement in the Makegood Restoration Provision is also reflected in Makegood Costs Recoverable within Receivables (Note C2(e)) except for PNSW self-occupied premises.

(d) Recognition and Measurement - Provisions

(i) Land Remediation Provisions

Where PNSW has a legal or constructive obligation to remediate an asset such as land, a provision is recognised to reflect the net present value of the estimated future costs required to settle PNSW's remediation obligations. At the same time, where PNSW owns the underlying asset, the amount of the provision is capitalised and added to the cost of the asset.

Periodic changes in the provision are accounted for in accordance with the requirements of AASB Interpretation 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" and the revaluation model requirements of AASB 116 "Property, Plant and Equipment" for not-for-profit entities.

The discount applied to recognise the time value of money is unwound over the life of the provision. Any incremental increase resulting from the unwinding of the discount is recognised under Finance Costs within the Net Result in the reporting period in which it occurs.

Other increases or decreases in the provision resulting from periodic changes to the estimated timing or amount of future remediation costs, or changes to the discount rate used, alter the revaluation increase or decrease previously recognised on the underlying asset. An increase in the provision is recognised in the Net Result except to the extent that it reverses any Asset Revaluation Reserve balance in respect of the underlying class of assets. A decrease in the provision is credited to the Asset Revaluation Reserve except to the extent that it reverses any previous increase recognised in the Net Result in respect of the underlying class of assets. Any changes to the Asset Revaluation Reserve resulting from these provision increases or decreases are separately identified and disclosed within Other Comprehensive Income.

(ii) Other Provisions

Other provisions are recognised when PNSW has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision. Where the effect of the time value of money is material, the provision amount is calculated as the present value of the expenditure expected to be required to settle the obligation. The discount rate used in the calculation is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The rate does not reflect risks for which future cash flow estimates have been adjusted.

PROPERTY NSW

Section D: Liabilities

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

D4. OTHER LIABILITIES

(a) Other Liabilities - Current and Non-Current Dissection	2018	2017
	\$'000	\$'000
Current		
Lessor Lease Incentives (b)	7,371	8,497
Deposit Monies from Assets Sale (c)	35,000	-
Total Current Liability at 30 June	42,371	8,497
Non-Current		
Lessor Lease Incentives (b)	33,583	39,757
Deposit Monies from Assets Sale (c)	-	15,000
Total Non-Current Liability at 30 June	33,583	54,757
(b) Lessor Lease Incentives	2018	2017
	\$'000	\$'000
Movement:		
Carrying Amount at 1 July	48,254	50,890
Additional Lease Incentives	1,708	5,644
Less Current Year Amortisation (Note B2(b))	(9,008)	(8,280)
Carrying Amount at 30 June	40,954	48,254

Lessor lease incentives received relate to incentives given to PNSW under head lease agreements. Lessor lease incentives are amortised over the term of each lease and are recognised as a reduction to Property Head Lease Expense under Other Operating Expenses in the Statement of Comprehensive Income (Note B2(b)).

(c) Deposit Monies from Assets Sale

In September 2015, PNSW received \$15 million deposit monies for the purchase of a long-term lease over properties located at 23-33 and 35-39 Bridge Street, Sydney. In June 2018, PNSW received the remaining \$20 million for these properties. As the commencement of the lease is not until July 2018 the deposit is recognised in the Statement of Financial Position as Other Liabilities.

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Section E: Equity

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

E1. EQUITY

(a) Accumulated Funds

The category "Accumulated Funds" includes all current and prior period retained funds. All financial distributions are made directly from Accumulated Funds.

Accumulated Funds - Movement	2018 \$'000	2017 \$'000
Carrying Amount at 1 July	918,081	667,259
Net Result for the Year	4,083	184,390
Transfer from Asset Revaluation Reserve on Disposal of PP&E (Note E1(b))	22,686	56,462
Financial Distributions (i)	(36,338)	(17,017)
Net Increase/(Decrease) in Net Assets from Equity Transfers (ii)	104,931	26,987
Carrying Amount at 30 June	1,013,443	918,081

(i) Financial Distributions	2018 \$'000	2017 \$'000
Normal Distributions from Surplus on Rental Operations (Paid to the NSW Government)	(13,850)	(5,225)
Capital Repatriations from the Net Proceeds of Asset Sales (Paid to the NSW Government)	(22,488)	(11,792)
	(36,338)	(17,017)

As a Government business, PNSW operates under the State Government's Commercial Policy Framework. A key component of this Framework is the requirement to make financial distributions to owners. In PNSW's case, its owner is the State Government. All payments of financial distributions are made to the Crown Finance Entity. The nature and calculation of the required annual distributions is determined by NSW Treasury Policy and Guidelines Paper, TPP 14-04 "Financial Distribution Policy for Government Businesses". The distributions made by PNSW include normal distribution payments from cash operating surpluses and capital repatriations, from the sale of its own properties.

Normal distributions are payments made from current year cash surpluses. Treasury policy states that a government business should not retain any cash in excess of its requirements for working capital, in addition to a contingency allowance for an appropriate level of financial flexibility. Funds in excess of these requirements are returned to the State Government.

Capital repatriations are additional one-off payments which represent capital repayments of the State Government's equity in PNSW. In PNSW's case, capital repatriation payments represent the full return of the net proceeds (i.e. total proceeds less costs) of all PNSW-owned property sales.

Payments made to the Restart NSW Fund (NSW Government's dedicated infrastructure fund) from the net sale proceeds of property assets sold by PNSW is recognised as contribution expense. The payments are based on a NSW Government decision that the net sale proceeds of property assets sold by DFSI related entities are to be paid directly into the Restart NSW Fund from 1 July 2015 onward except where the NSW Government has made a separate decision to allocate the net sale proceeds to fund other programs.

PROPERTY NSW

Section E: Equity

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(ii) Net Increase/(Decrease) in Net Assets from Equity Transfers	2018 \$'000	2017 \$'000
Transfer of Properties from other Government Agencies:		
Buildings (Note C4(b))	69,205	15,909
Land (Note C4(b))	45,126	11,078
Transfer of Properties to other Government Agency - Land (Note C4(b))	(9,400)	-
	104,931	26,987

The establishment of new statutory bodies or transfer of net assets between agencies as a result of an administrative restructure, transfers of programs/functions and parts thereof between NSW public sector agencies are designated as a contribution by owners and recognised as an adjustment to Accumulated Funds. This treatment is in accordance with Treasury Policy and Guidelines Paper TPP 09-3 "Contributions By Owners Made to Wholly-Owned Public Sector Entities" and is consistent with Interpretation 1038 "Contributions by Owners Made to Wholly-Owned Public Sector Entities" and Australian Accounting Standards.

Transfers arising from an administrative restructure between government agencies are recognised at the amount at which the asset was recognised by the transferor government agency immediately prior to the restructure. In most cases this will approximate fair value. All other equity transfers are recognised at fair value.

(b) Asset Revaluation Reserve

The total asset revaluation reserve is used to record increments and decrements on the revaluation of non-current property plant and equipment and finance leases. This accords with PNSW's policy on the Revaluation of Property, Plant and Equipment (Note C4). No financial distributions are made from the Asset Revaluation Reserve.

Asset Revaluation Reserve - Movement	2018 \$'000	2017 \$'000
Carrying Amount at 1 July	222,888	182,211
Net Increase in Property, Plant and Equipment Revaluation Surplus (i)	92,615	97,139
Transfer to Accumulated Funds on Disposal of PP&E (Note E1(a))	(22,686)	(56,462)
Carrying Amount at 30 June	292,817	222,888

Asset Revaluation Reserve - Asset Class Dissection	2018 \$'000	2017 \$'000
Land	44,296	66,257
Buildings	37,358	-
Finance Lease Assets	209,015	153,872
Fine Arts & Heritage Assets	2,148	2,759
Total Asset Revaluation Reserve at 30 June	292,817	222,888

(i) Net Increase in Property, Plant and Equipment Revaluation Surplus - Dissection	2018 \$'000	2017 \$'000
Land (Note C4(b) and D3(b))	725	25,573
Buildings (Note C4(b))	35,058	28,167
Finance Lease Assets (Note C4(b))	55,143	42,999
Emerging Asset (Note C7)	2,300	400
Fine Arts & Heritage Assets	(611)	-
Net Increase in Property, Plant and Equipment Revaluation Surplus	92,615	97,139

PROPERTY NSW

Section F: Financial Instruments and Other Notes

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

F1. FINANCIAL INSTRUMENTS

PNSW's principal financial instruments are outlined below. These financial instruments arise directly from PNSW's operations or are required to finance PNSW's operations. PNSW does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Quantitative and qualitative disclosures together with PNSW's objectives, policies and processes for measuring and managing risk are included throughout the financial statements.

The Chief Executive Officer has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing risks. Risk management policies are established to identify and analyse the risks faced by PNSW, to set risk limits and controls and to monitor risks. Compliance with policies is reviewed by PNSW management on a continuous basis.

(a) Financial Instrument Categories			2018 \$'000	2017 \$'000
Financial Assets - Carrying Amounts				
<u>Class</u>	<u>Category</u>	<u>Notes</u>		
Cash and Cash Equivalents	n/a	C1	164,483	83,469
Receivables (i)	Loans and Receivables (at Amortised Cost)	C2	367,591	336,586
Financial Liabilities - Carrying Amounts				
<u>Class</u>	<u>Category</u>	<u>Notes</u>		
Payables (ii)	Financial Liabilities (at Amortised Cost)	D1	49,022	38,560
Borrowings	Financial Liabilities (at Amortised Cost)	D2	34,398	34,398

(i) Excludes statutory receivables and prepayments as they are not within the scope of AASB 7.

(ii) Excludes statutory payables and unearned revenue as they are not within the scope of AASB 7.

(b) Credit Risk

Credit risk arises when there is the possibility of PNSW's debtors defaulting on their contractual obligations, resulting in a financial loss to PNSW. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Credit risk arises from the financial assets of PNSW, including cash and receivables (Notes C1 and C2). No collateral is held by PNSW and PNSW has not granted any material financial guarantees, individually or in aggregate. Credit risk associated with PNSW's financial assets, other than receivables, is managed through the selection of counterparties and establishment of minimum credit rating standards.

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. PNSW's exposure to market risk is primarily through interest rate risk on PNSW's BHP Remediation interest earning bank balance held within the NSW Treasury Banking System (Note C1(a)). PNSW has no exposure to foreign currency risk and does not enter into commodity contracts.

(d) Fair Value of Financial Instruments

PNSW's financial instruments are recognised at cost. The amortised cost of PNSW's financial instruments recognised in the Statement of Financial Position approximates the fair value, because of the short-term nature of the financial instruments. PNSW has not identified any financial instruments whose fair value differs materially from the carrying amount.

PROPERTY NSW

Section F: Financial Instruments and Other Notes

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

(e) Impairment of Financial Assets

All financial assets, except those measured at fair value through profit and loss, are subject to an annual review for impairment. An allowance for impairment is established when there is objective evidence that PNSW will not be able to collect all amounts due.

For financial assets carried at amortised cost, the amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the impairment loss is recognised in the Net Result for the year.

Any reversals of impairment losses are reversed through the Net Result for the year, where there is objective evidence. Reversals of impairment losses of financial assets carried at amortised cost cannot result in a carrying amount that exceeds what the carrying amount would have been had there not been an impairment loss.

(f) Derecognition of Financial Assets and Financial Liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or if PNSW transfers the financial asset:

- where substantially all the risks and rewards have been transferred; or
- where PNSW has not transferred substantially all the risks and rewards, if PNSW has not retained control.

Where PNSW has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of PNSW's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

F2. COMMITMENTS FOR EXPENDITURE

(a) Capital Expenditure Commitments

Capital expenditure contracted at balance date but not provided for:

Payable within one year

Payable later than one year but not later than five years

Payable later than five years

Total Capital Expenditure Commitments (Incl GST)

2018	2017
\$'000	\$'000
4,184	1,265
-	-
-	-
4,184	1,265

Total capital expenditure commitments relate to contracted refurbishment works on various owned buildings. Capital expenditure commitments at 30 June 2018 include GST recoverable input tax credits of \$0.4 million (\$0.1m at 30 June 2017) that are expected to be recoverable from the Australian Taxation Office.

(b) Operating Lease Commitments

Head lease future minimum lease payments contracted at balance date but not provided for:

Payable within one year

Payable later than one year but not later than five years

Payable later than five years

Total Operating Lease Commitments (Incl GST)

2018	2017
\$'000	\$'000
399,497	384,946
889,750	809,409
425,112	496,393
1,714,359	1,690,748

The majority of future minimum lease payments will be recouped by PNSW under sub-leases. Future minimum lease payments and receipts as at 30 June 2018 include GST recoverable input tax credits of \$155.8 million (\$153.7 million at 30 June 2017) and GST payable of \$155.8 million (\$153.7 million at 30 June 2017).

(c) Finance Lease Commitments

Expenditure commitments on PNSW's finance lease liabilities are disclosed at Note D2(c).

PROPERTY NSW

Section F: Financial Instruments and Other Notes

Notes to and Forming Part of the Financial Statements for the Year Ended 30 June 2018

F3. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

PNSW is not aware of any contingent assets or liabilities at 30 June 2018 (Nil at 30 June 2017).

F4. RELATED PARTY DISCLOSURES

(a) Key Management Personnel Compensation

During 2017-18, PNSW incurred \$3.4 million in respect of the Key Management Personnel services that were provided by DFSI (\$2.8 million in 2016-17).

(b) Transactions and Outstanding Balances with Other Related Parties

During 2017-18, other than the remuneration paid to Key Management Personnel by DFSI, PNSW has not entered into other transactions with Key Management Personnel, their close family members and controlled or jointly controlled entities thereof (Nil in 2016-17).

(c) Transactions and Outstanding Balances with Other Government Entities

During 2017-18, PNSW entered into transactions with other entities that are controlled/jointly controlled/significantly influenced by NSW Government. These transactions are collectively, but not individually, a significant portion of PNSW's property rental income, fees for services rendered and grant and contribution revenue.

F5. EVENTS AFTER THE REPORTING PERIOD

(a) Adjusting Events

There are no known events after the reporting period which would give rise to a material impact on the reported results or financial position of PNSW as at 30 June 2018.

(b) Non-Adjusting Events

- (i) *Owned and Leased Office Accommodation Property Vesting and Property Divestments* – Pursuant to the recommendations of the Government's Property Asset Utilisation Taskforce and subsequent Premier's Memorandum M2012-20, further divestment of various PNSW owned properties, in addition to the ongoing vesting of Government agency owned and leased properties is likely to occur in separate tranches during 2018-19. As the identification and validation of these properties was still in progress at the reporting date, estimates of the financial impact on PNSW's accounts in 2018-19 are not available.

There are no known other non-adjusting events after the reporting period.

End of Audited Financial Statements